UNIVERSITA' DEGLI STUDI DI PADOVA

DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI
"M. FANNO"

CORSO DI LAUREA MAGISTRALE IN:
BUSINESS ADMINISTRATION
LM-77 - Classe delle Lauree Magistrali in SCIENZE ECONOMICO-AZIENDALI

TESI DI LAUREA

"Search Funds: a European Perspective and an Italian Market Analysis"

Relatore:
CH.MO PROF. ZOTTI ANTONIO

Laureando: SCARATO MICHELE
MATRICOLA N. 1131739

ANNO ACCADEMICO 2017 – 2018

Il candidato dichiara che il presente lavoro è originale e non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere.
Il candidato dichiara altresì che tutti i materiali utilizzati durante la preparazione dell'elaborato sono stati indicati nel testo e nella sezione "Riferimenti bibliografici" e che le eventuali citazioni testuali sono individuabili attraverso l'esplicito richiamo alla pubblicazione originale.

Firma dello studente

____

Index

Introduction

In recent years a new asset class is gaining momentum and enjoying a prosperous growth thanks to the worldwide dissemination of his knowledge and of his returns. In 1984 a Stanford's Professor devised a new way to allow a young MBA graduate to become CEO earlier than expected. The *Entrepreneurship Through Acquisition* overcomes the limits related to the risk to come up with a winning idea creating a business from scratch, the cost to acquire an existing company and the level of experience needed to manage a firm. The new asset class, called also *Search Fund*, allows a young individual with little experience to acquire a small or medium business, thanks to a thorough support of an active pool of investors. The capital providers, in fact, are a necessary condition to a successful deal, committing the capital required to search a target, first, and then buy it. Yet, they are entitled to train and coach the talented individual throughout all the process and his phases using their priceless experiences. The searcher, the young talented individual, is in charge of search and operate the acquired business, fundamental to glue together the *sleeping capitals* and the viable opportunities in the small and medium firm's market. He/She will give up a brilliant career along with a higher salary to pursue a fast track path to become CEO using his/her high education and little experience, guided by a pool of active and professional investors. The target company is the third pillar of the model, crucial to the outcome of the investment. It has to fulfill certain industry and business-related criteria of profitability and growth potential facilitating the searcher to vest his/her new role of top manager in the first year of operations.

The all process is split in 5 different phases: Fundraising, Search, Acquisition, Operation, Exit and overall it can take 10 years and even more. The first phase is aimed to collect the *search capital* required by the searcher from the investors, incorporating the fund to seek for a company to acquire in the second phase. Secondly, applying the criteria chosen, a process of screening and evaluation of potential targets starts, reaching out hundreds or thousands of owners before to find the right one. Found it, third, the acquisition procedures begin from a Letter of Intent to a SPA (Sale and Purchase Agreement) passing through a careful due diligence and a negotiation of the terms and conditions. In the meantime, the principal needs to reach out the original investors' pool asking for commit the acquisition capital, along with bank debt and seller notes if necessary. Fourth, once acquired, the searcher will become the new CEO and with the support of the investor will try to operate and growth the company. The goal is to enhance the margins and expand the business to get a greater appeal in the future for potential exits such as a sale to a strategic buyer or go public via an IPO, last phase of a search fund.

Since 1984 the model has been developed and it has gained an important credibility to be a successful investment for all the stakeholders involved. The investors obtained higher return on their investments, former owners have seen their companies better-off and expanded, and searchers became successful CEOs, personally and financially rewarded.

However, for almost fifteen years the search fund model has seen a weak expansion and a shy traction in US where it was born, from both students and investors. The first necessary to put together all the resources in order to search, buy and operate a business, the second to provide the capital needed to perform all the activities, first, and light up the way to be a successful top manager to the young searcher/CEO. The investors in particular were waiting the pioneer acquisitions to exit the investments and gauge later the effective returns. The would-be-searcher instead, attending their MBAs, were still aspiring to the classic careers after such an education like investment banking, or private equity, seeking a less uncertain career with a determined salary. But, once the time came and the first investments cashed-in, the investors community have been surprised for the returns achieved, impossible to replicate in normal situation with the other comparable asset classes available in the market. The achievements accomplished by the searchers triggered the students as well to pursue the entrepreneurship through acquisition career, amazed by not only the financial return but mainly the experiences gained throughout the journey. Accordingly, a first wave of new search fund came, and others followed, until 2010 when from that year the growth of the new searchers became exponential. This evolution life time regarded all the first countries that faced the model, such as US, UK, Spain and Mexico. In particular, the model is well developed in US, search fund's native country, where almost four fifth of the all search funds are based or have been created so far. The country experienced the first deviation of the traditional model as the self-funded search, or a different investor like funds of fund or the search fund accelerator. The UK has been the second country worldwide to host a search fund and nowadays one of the most populated. Spain is an interesting case since for many years the model was sort of unknown, but a business school, IESE, decided to sign an agreement with Stanford (still the most reliable source of data about the topic) tracking the evolution of the search funds outside North America. This agreement laid the foundations of the success of the model in Spain, now one of the first countries per number of operating search funds. The key to unlock the development of the model has been the role of IESE Business School played and it's still playing supporting the diffusion of the knowledge through classes, modules, guest speakers, conferences.

The search fund model arrived in Italy as well in earlier 2016 when two Italian MBA graduates from LBS and IE decided to come back in their home country to set up and initiate their career as searchers in a white space market. The hurdles were right after the corner, first of many the knowledge of the model by the investors, totally unaware of his existence or afraid to invest some capital in something completely new. Despite the first struggles, the first search fund has been established in 2016 and in the same year another one followed. Three more funds have been raised in 2017 and one is currently fundraising, probably being the first new searcher in 2018.

This thesis is aimed to identify the main differences between the US and International funds, with a close focus on the European funds, depicting the drivers and the motivation behind them. It's also aimed to understand whether the Italian ecosystem might be a good market for the search fund model or if those cases are only isolated trials. To do that it has been analyzed the market of the small and medium companies from three different sources, understanding the drivers that might help or obstacle the development of this asset class. It has been also analyzed the investor market with their potentiality, trying to display who are they and the reasons that trigger an investor to commit capital in a search fund. Yet, a careful comparison between the private equity and search fund have been done to clarify if they are competing for the same target companies or not even though their similarities. Finally, it has been answered on how the search fund model can contribute to the Italian business environment, and how the model can develop the main risks and hurdles.

To give a comprehensive and qualitative analyses of the European and Italian outlook, several interviews and meeting have been conducted with Spanish, British, Czech, Morroccan, Portuguese and Italian searchers to gather more insights and proofs of the facts. Some special thanks go to Davide Vallero (Clarence Bridge Capital), Joao Diogo Stoffel (Planalto Capital), Ivona Hrusova (Continum Capital), Marc Bartomeus (Ariol Capital), Hicham Haddouti (Idus Capital) Antonio Ribelles (Ibero Capital), Fernando Guillem and Daniel di Cecco (Sachem Partners) for the European analysis and Tommaso Romanelli (Tre Cime Capital), Guido Filеppo (Patria Private Capital), Nevio Zaino (Magnolia Partners), Christian Paone (Dolomites Capital), Toby Clearence Smith (CS Investimenti) for the Italian market. Thanks to the time they spent along with their support and help, this paper has more detailed and qualitative information to better understand the pros and cons of the model, as well as his strengths and weaknesses.

1) Introduction to the Search Fund Model: The Players and the Structure

In the *private equity* panorama, a new model of investment was born roughly three decades ago in the US. Over the years we have seen a development of the PE model specializing it in different areas of investment, differentiating and creating new assets class of investment, such as the *venture capital* (VC), *leverage buy-out* (LBO) or *turnaround* for example. New changes in the last years were accomplished with the birth of the *pledge funds* and the *special purpose acquisition vehicle* (SPAC). In this journey the *Search Fund* model (SF) represent the last development in the private equity environment, devised in 1984 when Prof. Irvin Grousbeck and Jim Southern established the first search fund in the USA named Nova Capital. At the beginning, the search fund model (called also *Entrepreneurship Through Acquisition*, ETA), didn't gain huge attentions by the investment community and the MBA's students, even though some funds shyly started to being set-up. According to Josh Dennis and Erick Laseca (2016) only 34 funds were raised in 15 years from 1984 to 1999, leading to a total of 20 acquisitions with a pace of one or two funds at maximum raised every year. In 1994, Grousbeck and Southern sold ten years later the business for the first time in the search fund landscape, returning investors 24 times their original investment. Thanks to this return the model acquired rapidly consideration and esteem among scholars, MBA's students, investors and business communities speeding up the pace of new funds raised jumping, suddenly, to 7 new funds in 1996, and preparing the foundation for the years to come.

According with his pioneers, Irvin Grousbeck and Jim Southern, a search fund it's an investment vehicle through which a young talented aspiring entrepreneur has the opportunity to search for, acquired, managed and grow a relatively small/medium company[1].

A search fund can be viewed as a process through which typically, but not always, a young MBA graduate with no relevant top management experience (or very little) wants to become an entrepreneur acquiring an existing business. In a first endeavor, he/she gathers funding from a group of investors, individual but also institutional, other private equity funds, to run the fund in the first months of his life, paying a nominal salary and the expenses while the searcher looks for a target to acquire. Usually the model ranges from $300.000 to $500.000 funded by 15/20 investors with an average investment unit of $30.000. As soon as the target has been found, the deal is negotiated with the seller whereas the principal submits the deal to the group of search investors asking for the approval and secondly for backing the acquisition. The search investors have the

[1] A primer on search funds Stanford 2013

right of first refusal to invest in this phase, meaning that even if they don't roll into the acquisition investment (it is a right, not an obligation), they yield in any case a stepped-up value about 1.5x the former investment on the equity of the acquired firm. Once the searcher got the funds needed to buy the target, he/she buys it becoming the new CEO of the acquired company and usually a few investors become managers or directors. In this way they provide support and guidelines to the new CEO strengthening the governance of the firm. The searcher yields a stake on the equity of the company accordingly on the achievement of certain goals that usually count for 30% of the total ownership. This percentage is split accordingly on the achievement of some milestones: one-third on the closing of the deal, one-third owned base on the performances after a period of 4 to 5 years, and one-third based on hitting the IRR target for the investors, typically around 25% to 30%. After the holding period the searcher starts to look for the best exit strategy in order to create enough liquidity to pay back the acquisition capital investors, firstly the senior debt holder, then the subordinated, equity holders and lastly, the residual value, goes to the searcher as a reward of the risk taken and his/her resourcefulness.

1.1) The Players: The Jockey, the Trainer, the Horse.

As aforementioned said, a search fund is a process through which an aspiring entrepreneur seeks and acquires an existing small-medium size business sponsored by a pool of investors, with the purpose of improving, expanding, and enhancing the business, implementing new strategies that reshape the market processes. Entrepreneurship through acquisition involves three spheres of interests: an opportunity to pick up, some capital to invest heading to a good enough return weighted for the risk associated, and an average talented person with the ambition to light his or her career path becoming an entrepreneur. Within the search fund's definition is immediately recognizable the three key milestones for the model: the aspiring entrepreneur and his/her purpose, the investor community backing the fund, and the small/medium company target. The first is also called the Jockey, as he/she takes the reins of the game, investors are called Trainers as they will guide and train the searcher while he/she ride the Horse, the target company managed by the Jockey. The metaphor with a horse race is clear.

1.1.1) Searcher as a Jockey

The Jockey, the horse rider, is the glue between an opportunity out in the market, and the private capitals willing to risk more than usual. The searcher is someone who wants to run the last mile, dividing capitals and opportunities, spending time to search for the good company to buy and growth putting together impatience capitals looking for a good deal at a lower cost option.

Jockey, also known as searcher, is frequently a bright, talented individual with a good education and perhaps some professional experience at a junior position, rarely with middle management involvement. Often, it's a young person and in fact more than 80% are under 40, recently graduated (50%) from a top ranked MBA program, with some previous experience in management consulting (16%), investment banking (22%), and private equity (31%) fields. The majority of the searchers are man, in fact, only few women started these funds confirmed by the female percentage running a new search fund that is at one digit and in some years even 0[2]. A search fund could be performed also in a partnership and, indeed, almost half of the Funds are run by two or more searchers. A partner is extremely helpful because it might lead to better decision thanks to a second point of view on all the ongoing decisions. Further, a partner is a moral support for the more frustrating times, avoiding the loneliness that sometimes can occur to a solo searcher. Yet, he/she doesn't have enough cash to buy a small company neither enough experience at top management level to run a business as a CEO.

This briefly description of a searcher doesn't really look uncommon. What makes them really different compare to other average smart graduates with similar studies and experiences, it is the strong willingness to start an early-career as an entrepreneur and becoming owner and CEO of a business. While other mates choose big structured companies with clear career path, a searcher is taking a step back to do what he/she really wants to do, being an entrepreneur. It's crucial to have the passion to lead a company that fits with the searcher's interest and wishes, where he/she is really engaged with, since it will be his/her job for at least 9years or so. Another important reason to start a search fund path is the reward a principal may get. Not only realizing higher financial return through a modest salary and an equity stake on the firm, potentially with no upper limits, but especially professionally, personally, yielding priceless experience and skills managing a huge number of tasks throughout all the process. Among all, a searcher needs to promote his/her investment and collect capitals, analyze industries to seek targets, gauge them and performing an acquisition, develop and execute a growth strategy, enhance the business, being the leader and carry out an exit strategy for the investors. The broad variety of jobs in such a narrow period is one

[2] According to Ruback and Yudkoff, 2017, women values more working for a big, well-known company, being employed in a traditional career path seeking an entrepreneur experience later when they succeed in those jobs and when their lifestyle changed.

of the main characteristics of the search fund model and one of the reasons why individuals choose this profession. Furthermore, the commitment to search for a target to buy and learn as much as possible how to become a great CEO along the way, forego the normal amazing career path you will expect after an MBA, is not an easy choice. In fact, an aspirational searcher should ask and discuss to former and actual founder how being a searcher would look like with the values that have been brought or lost with this job. It is suggested for an early-promoter to talk with other searchers at every stage of their fund and even before, those who failed, those who acquired a company and are managing it, those who are still searching a target or those who already sold it. Would be also useful have been worked for another search fund or perform a survey, a research project or experienced the environment as an intern. Embracing this experience, a searcher feels the independence of running its own business, where he/she freely makes decision that really matters, setting the rules and timing accordingly with his/her lifestyle. But independence means also that a searcher has to figured out what to do and what to not do, evaluating past decisions and shape the future's ones, defining the processes, priorities and targets. A search fund is a meritocratic model because rewards for what, and how, has been done or not. It is a direct incentive to work hard but it leads to both, better off and worse off situations and since the searcher is responsible for the decisions made, there are also emotionally ups and downs influencing his/her daily life. Besides, a funder must be willing to learning continuously throughout all the search fund life since is an unexperienced manager and not an expert of the business he/she is going to handle. In this context, learning means also that sometimes the answer is uncertain and perhaps some intuitive decisions will be taken representing either a mistake, or the best answer ever made. Yet, embracing this career lead to give up a conspicuous stable amount of money coming from a normal high salary after an MBA. However, despite a modest salary, a searcher might be compensated with a huge return after the sale of the business since it may own up to roughly 30% of the equity. A searcher cannot brag to work for one of the biggest company in the world, but he/she can be proud to own a business and being a CEO. Of course, it is always a trade-off and each case is different, but a searcher must be aware of the possibilities and difficulties that can appear walking through that way before starts it.

Even though there isn't an identikit of the perfect searcher since it's subjective to each individual and business, it is possible to define some traits, skills and features that searchers have in common. To succeed in an entrepreneurship through acquisition are needed some basic management skills achieved during the studies or past experiences, along with analytical and financial understanding.

It's also important to be a leadership driven person, managing all the stakeholders, from the employee to the investors with a knack for decision making. Yet, traits as persistence, perseverance, determination, bouncing back at every "no" heard with a relentless energy and motivation even if it will happen next to the closing, are fundamental. The so called "thick skin". It helps the promoter to resist, to be resilient in the long, hard, and lonely path of search a target, learning from the advices and the mistakes of who is older and more expert then him listening the advices. Therefore, other key features are being willing to look for and heed advices, suggestions from investors, sellers, advisors; the attention to the detail seeking for the right target, adaptability to change lifestyle, perhaps country; be persuasive to promote the business model of the fund, selling skills, collect capitals and build a strong and valuable network. Complete the profile a problem solver, resourceful individual, disciplined and rational thinker that can proof past success. Again, all of those are not strictly necessary traits: as mentioned each searcher has its own personality and qualities that have to cope with the industry and the business targeted as well as to the lifestyle of a CEO.

Compare to a start-up career, that can seem an analogue entrepreneurship model, there are two main differences that are crucial to decide for which one going for. Indeed, a start-up requires to an individual to become the CEO of a future firm starting from scratch, a business idea, the right one. Afterwards, it requires to create a web of relationship of stakeholders and an adequate infrastructure to support the business ran. The search fund model mitigates these risks targeting existing profitable businesses with an organization and infrastructures already in place overcoming the tough hurdle to come up with a winning business idea. Sometimes an individual has everything is needed to manage a business except for the right business idea, and the entrepreneurship through acquisition is able to overtake that.

1.1.2) The Trainer

What makes a big difference in a search fund compared with another comparable asset class is the group of investors backing the promoter. They will play an active and a strategic role during all the phases of a search fund and even more in the early part of the process where the searcher has to seek and screen potential industries and targets. They are strategic also when a funder becomes the CEO guiding him/her to make the right decisions avoiding bad deals. For that reasons, is key that he/she select a high-quality investors pool that are actively supportive, acting as a coach that trains a searcher along the different phase of the search fund, especially when he/she becomes the new

CEO after the acquisition. Investors in a search fund have to invest time sharing their knowledge and expertise more than simply passively provide source of finance to the promoter. The investor's group should be heterogeneous, in which everyone can add value to the fund with its background of experience, knowledge and network coming from different field of activity. It's important that at least part of the capitals providers come from past experience with search fund investments, because they know already how the nuances of model works and perhaps they are likely to guide and train the searcher better than others. Too many "first time" search fund investors, in fact, are risky since they are unexperienced and therefore will be harder for them to suggest the deal that best fits with the searcher. Unfortunately, the number of new search funds outstripped the number of experienced investors, thus is even harder to commit those investors to a new search fund venture securing engagement from their side. As proof of the facts, during the first 15years of operations roughly 30 search funds where raised backed by a community of 15/20 investor, called also "Search Fund Mafia[3]", that accounts for the chunk of the total capital invested. Whereas, in the following 5years, the number of search fund set up doubled, doubling as well in the subsequent years, and still growing at a fast pace. With this rhythm, it's easy to understand why experienced investors are now rare and convincing them to invest in a new search fund requires way more effort and fundamentals.

Essentially the investors' pool is in charge of support financially the search phase, and they are expected to inject also part of the acquisition capital. But a search fund peculiarity is that a smaller group of investors, within the pool, is responsible to train and support the searcher throughout all the processes of the fund as well. This smaller group will accompany the searcher as a mentor, a guide, and perhaps they will be part of the Board of Directors of both the fund and the acquired target. They need to be an empathetic mentor, patience, able to understand the choice done of the searcher and the difficulties that come with this particular tough career path. These active investors concretely are volunteering committed to help a searcher since the beginning, advising him/her on the suitable industries to tackle, introducing experts, owners, ex-CEO that can give a better understanding and some insights. They will help to filter businesses and screen targets, finding the few that best fit with the searcher. Again, leveraging their network as well, they can support the searcher reaching out professionals, banks, other investors, attorneys during the due diligence phase, while next to the closing they might help suggesting the best terms and condition to apply. Afterwards, when the searcher becomes the new CEO of the acquired investors should advise the

[3] "The first 10 Questions for Would-Be Searchers", IESE Business School – University of Navarra, 2011

promoter, using their experience and expertise helping him/her to perform the best growth strategy possible. Active investors usually step in to the acquisition capital and require a seat as well on the Board achieving a close view on the operations with the possibility to influence them.

Even if there are several kinds of investors, it's reasonable to club them into three different cluster: Institutional Investor, Individual Investor, and Alternative Investor.

- Institutional: pension fund, public owned companies, insurances, banks, sovereign funds.
- Individual: private wealthy person or small private firm, private equity.
- Alternative: international search fund investors, equity pools, family offices, incubators.

Historically, search fund has been financed by wealthy individual investors, while recently there is a more heterogenic composition of the pool. Regardless the cluster from where an investor come from it's possible to divide the group into other categories with shared characteristics.

- Investors that knows already the searcher personally: they might know the search fund model but is more likely that they will trust more on the searcher; usually they are the first investors approached by the searcher such as family, friends, colleagues or ex-bosses, the latter in the industries where the searcher is more aware of.
- Search fund Investors: they known well how the model operates and have a perfect understanding of the underlying process, fundamental to train the searcher as explained above.
- Local/Industry Investors: meaning that they are totally confident with the regulation of the country and the industry (e.g. Delaware; Pharmaceutical) and the environment of the investment. Owning strong ties with professionals and intermediaries, business industry community and network this kind of investor are invaluable for the significant impact they can provide during the first years of the fund (search, screening, closing, operations).
- Pure Capital Investor: are resourceful and therefore necessary to collect sufficient acquisition, or additional, capital.

For the investors as well, there isn't a perfect formula to select and compose the investors' pool. Accordingly, a searcher needs to gauge constantly what are the resource he/she needs step by step: managing the investor group mixing strengths and weaknesses a searcher can increase the odds of a successful search complementing the searcher's existing skills and network.

In a research (Dennis and Laseca, 2016) conducted interviewing more than 40 search fund investors, 61% of them were individual investors, 18% institutional and 21 alternative investors. On average all of them invested in search funds for 12years with 21% having more than 21 years of experience with the model. An interesting point to flag out of this research is that, overall, the target company, the Horse, is the most important player. In fact, answering about what's the pillars of the search fund model, 20% was attributed to the trainer, 30% to the jockey and 50% to the horse. Yet, 73% of the individual investors admitted the success of a search fund depends more than a half on the acquired business, more important than the searcher and their contributor together. Within this pool, 11.5% of them assigned a weight of 80% to the business. Often the Warren Buffet quote has been recalled: when a not performing business meet a great manager, is the reputation of the business the one that remain the same.

It's interesting, and not obvious then, understand why an investor would commit more than a simple amount of search or acquisition capital into an investment like a search fund. For sure there is an appealing pure *financial return*, that compensate the risk to invest in a small firm with an inexperienced CEO but is not enough. In fact, the main reason why an investor invests in a search fund is because this asset class have performed above average returns, with a pre-tax Internal Rate of Return of 35%. For example, other asset class as stocks or bonds yield return respectively about 15% and 5%. Private Equity expected return is lower while Venture Capitals reach higher return, however they have higher failure rate. Compare to them, 35% is a huge return but since it's an average, individual search funds can have widely differences in returns, and many investors invest in several funds at the same time to mitigate this risk. (see chart below) Another reason is the *small opportunity cost* coming from the processes of the model: the two phases where capitals are required, search and acquisition. The first round, the search capital, creates room for an investor to commit a small, limited amount of money buying an initial unit in the search fund with the right, and not a duty, to invest further, and more, in the acquisition phase. This option is a specific characteristic of the search fund model and it allows investors to "try before you buy" without risking huge amount. It gives them time to get familiar with the procedures, the searcher while waiting to gauge the firm targeted before investing more. In fact, they receive a right of first refusal on the acquisition capital meaning that they can decide if invest more on the purchase of the target or not. No matter if he/she put more capital or not, an investor rolls in to the acquisition yielding a 50% premium in preferred equity on the amount of search capital previously invested. On the other side, if the investment goes wrong or an investor would cash in and shift the capital to another asset, there is still a small market for private equity shares and therefore not liquid. Since a search fund investment is a risker asset class, it's used to *diversify* portfolios. However, this risk is *mitigated* by the fact that investor can directly influence the decision-making process, following shoulder to shoulder the searcher and advising him/her to take the right decisions throughout the journey. Moreover, the "option" given to the investors, above mentioned, allow them to double check the feasibility of the investment and if it fits with their portfolio strategy. The downside is that searcher is an inexperienced individual both in acquiring a target and operate it. He/she might run out of search capital while looking for a suitable target to acquire and, assuming the deal closes, he/she can struggle to manage the operations of a firm. Yet, one of the main reason going beyond the pure financial/investment strategy, is the *personal interest* on the search fund model. Active investors are motivated to commit time and effort to help a young searcher to succeed. This strong motivation glues the search fund's team and the investors, bonding the latter to drive an inexperienced individual to be a remarkable CEO. Lastly, search funds through talented searchers are willing to *scope relative small deals* that other asset classes don't. Classic investors, especially institutional or alternative ones, don't seek investments with a small expected exit value of cash since it's under a hurdle rate that guarantee for the time and effort spent to look for those deals. Accordingly, backing a searcher looking for those small size targets in a lower competition environment permit to have access a different source of investment at a low cost, the search capital, otherwise lost.

1.1.3) Differences with Similar Asset Classes of Investment

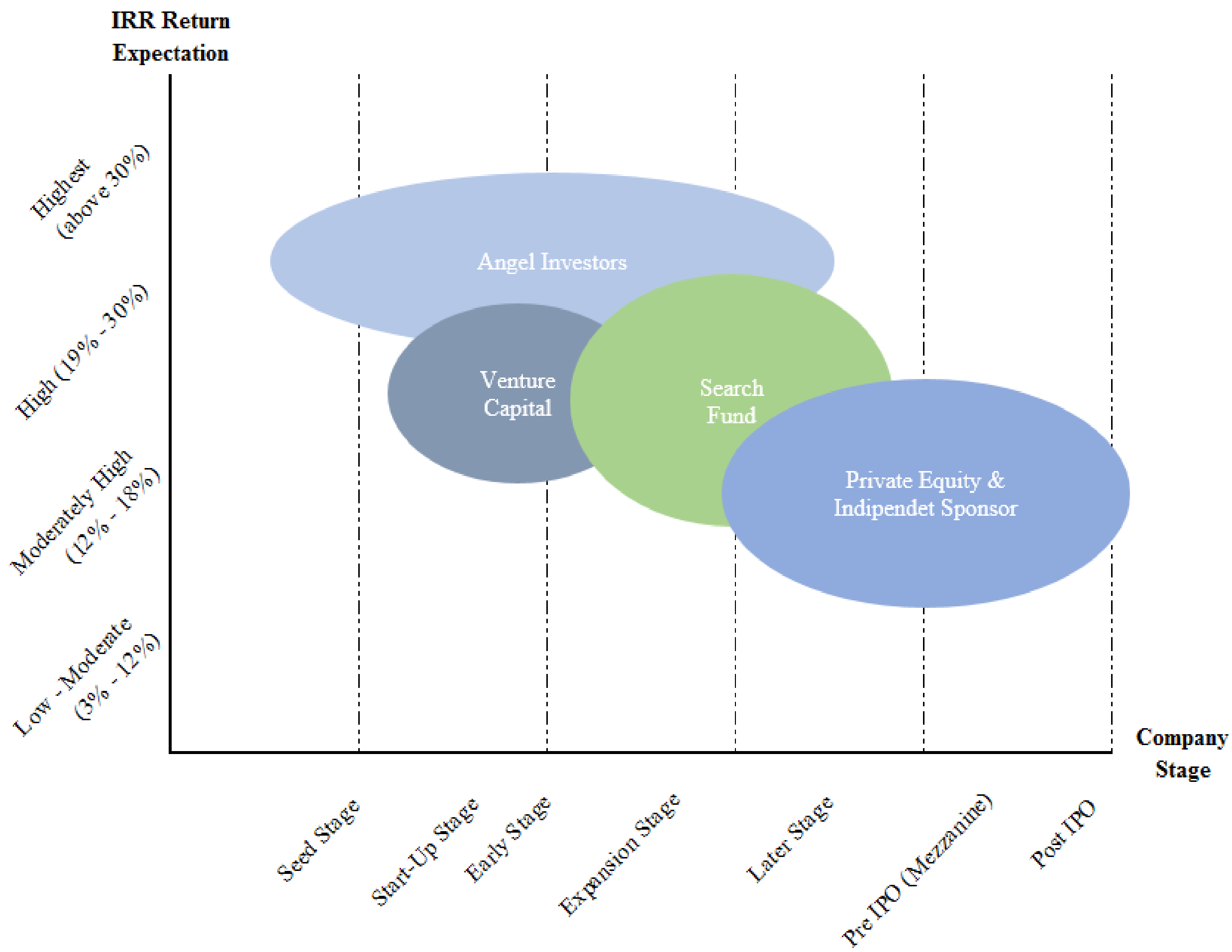
In many points, search fund investments, private equity and venture capitalist are similar whereas, they differ from the common asset class such as bonds and stocks for the relative illiquidity of the market, as well as a high due-diligence cost and difficult performance evaluation. Indeed, the border lines are blurred and the search fund, as an asset class, falls within the traditional alternative investments under the private equity umbrella. In fact, within the private equity umbrella there are venture capitals, search funds, LBOs, Buyout funds, distressed debt financing and of course the general private equity funds. The main differences between these categories of the same asset class are several.

Firstly, the stage of the lifecycle of the target for a venture capital or a traditional private equity fund goes from the pre-seed stage until the post IPO respectively, while search fund seeks established private company in the early middle or their expansion with a positive financials records. Bonded with the stage there is the size of the companies that can have no revenues, or negative profit, such as start-ups pursuit by venture capitalists, or no limits like in a private equity investment. Search fund look for only small medium enterprises ranging from 5 to 30 million of revenues with at least 0.5 million in EBITDA (10% of EBITDA margin). Investors sourcing the funds are different as well since search fund are backed by high-net-worth individual mostly, instead VC and PE are financed generally by institutional investors such as pension funds, trusts, foundations, endowments. The general partner in a search fund, the searcher, has the highest level of commitment since day one, compare to the less active role of the general partner in all the other private equity investments where they have executive managements roles only after the acquisition. Limited partners instead, fit vary positions from active board membership or passive ownership in a traditional PE, rather than in a search fund where they are asked to play an active role both in the board or as an advisor.

	Angel Investors	**Venture Capital**	**Search Fund**	**Traditional Private Equity**	**Indipendent Sponsor**
Company Stage	Seed Stage to Later Stage	Seed Stage to Expansion Stage	Expansion Stage to Later Stage	Later Stage to Post IPO	Later Stage
Company Size (EBITDA)	Negative to 10 M	Tipically Negative	1 M to 5M	Greater than 3M	Greater than 1M
Source of Funds	High Net Worth / Self-funded	Institutional and High Net Worth	High Net Worth	Institutional	Institutional and High Net Worth
Roles of General Partners	N/A - Direct Investment	Board Seat or Advisory	Management Roles	Board Seat or Advisory	Board Seat or Advisory
Roles of Limited Partners	Higly Active	Avctive	Higly Active	Passive	Passive
Return Expectations	18%-25% AVG 30%	22%-45% AVG 27%	20%-40% AVG 25%	19%-30% AVG 25%	19%-30% AVG 25%
Holding Periods	4-8 years	4-7 years	5-10 years	3-7 years	3-7 years

Source: Morrissette, Stephen, G., and Shamus Hines. “An Investors’ Guide to Search Funds.” The Journal of Private Equity, 2015

The different models vary also from the financial expected return on these investments although expected returns differ accordingly to company stage, size and industry, deal specific concerns.



Source: Morrissette, Stephen, G., and Shamus Hines. "An Investors' Guide to Search Funds." The Journal of Private Equity, 2015

Angel investors and venture capitals are the more demanding with an expectation return heading to 30%, whereas search fund and traditional private equity are looking for a 25% of IRR. This is partially explained by the stages where the investors are operating: angels' range is the widest going from a pre-seed stage to a pre-IPO, venture capital stops at expansion stage and private equity starts only on a later stage before the initial public offering. The holding period, yet, is different ranging from 4 to 7 years and usually search fund has a longer one compare to the other structures. Lastly, exit strategies aren't too much in these cases but what's different is the proportion of deals related to each category. Search fund focus almost only on selling to other private equity funds and other few private strategic buyers. On the other side, private equity relies on private companies and less in other private equity firms, with a remarkable proportion of IPOs. Venture capitals prefer public strategic buyers followed by private companies, vice versa angel investors.

1.1.4) Target Firms as a Horse

As mentioned before, the company targeted along with the industry where the business is operating have a huge impact on the investor's choice to finance a searcher, and a significant power on the searcher's decisions as well. In fact, first the searcher needs to address is/her research into a narrower basket of industries accordingly to some personal and financial criteria, and further filtering these industries by other criteria to make a short list of right company's candidates. It follows that the business is the most important, and having a good business is necessary to succeed on a search fund model. Remember the famous quote of Warren Buffet.

It is important to clarify that there are standard sets of criteria for both the industry and the business that identify what's a search fund scope. Variances of those criteria are deviations of the traditional model, or even a different category of asset class. However, the searcher must, applying those criteria, select the best industry and business that fits with his/her skills, knowledge, preferences and tastes. The company has to provide something interesting for him/her and dealing in an existing environment. Searcher should avoid product or services that doesn't like as well as industries where he/she is totally unaware of. They should match also the lifestyle of a searcher and his/her family in an outlook of 8 to 10 years. While looking for a geographical scope of the search, one important aspect is where the searcher and the family is willing to move there and become part of the community, with everything comes together with it. Yet, the following criteria are meant to give an overview of the potential filters to apply during the screening and no one searcher look for meet all of the requirements listed below.
With these premises lets now list the characteristics of the industry and the business of a traditional search fund.
Firstly, a searcher needs to understand in which industry to look for a target, and this is the first filter applicable. Usually searcher identifies three/four main preferred industries and focus on those at the beginning, widening the research if the criteria are too strict, didn't brought interesting results, or the information disclosed while deep diving into them change the view of the searcher.

- Necessary condition, it has to be a growing industry with a performing record of growth and at least 5% of annual growth for the upcoming years. Historical growth shows stability of the industry and a forecasted growth serve as a tailwind in expanding and enhancing a business helping substantially the searcher.

- An industry that is profitable and attractive to new customers creates favorable condition to expand and it might make easier to get leverage financing.
- Fragmented industries are advantaged because there are no dominant players and a huge number of companies have a wide range of revenue. On the other side is suggested an industry where there isn't a dominant customer as well, smoothing the competition and allowing a growing environment.
- Industry with limited risk such as obsolescence, legal, regulatory, cyclical, or fast trends will be easier for a first time CEO to handle. It's preferable a tech-enabler industry rather than purely technology ones due to the lower capital intensity and rapid changes and innovations that come from these sectors.
- Long product or service lifecycle with a potential for differentiation gives to the searcher time to get familiar with the business without incurring too often in capital expenditure and also help him/her to growth and maintain higher margins.
- Financing the target company with leverage help to reach better returns for both the investors and the searcher, then industries have to be appealing for lenders.
- The industry then, should thrive opportunity to extend the business organically and inorganically both via acquisition, a geographical scope (internationalization) or expending the products range.

When a searcher filtered and listed the most interesting industries, sector, or even niches, it is the turn to investigate within those industries which are the firms that meet the search fund requirements.

- The size of the target should be large enough but not too much, fluctuating from 5 million and 30/50 million in revenues. This because a smaller firm is too complicated to manage for an inexperienced manager, there isn't a thorough business structure and it's too small to sustain the cost associated such as wage of the searcher, debt repayment, and still allowing for business strategic transformations. Bigger companies require to manage complex details both financially and strategically and yet, above this threshold private equity firms start to be interested in those firms increasing the competition and prices. Further, due to the limited access to capital, this is the range that a search fund can look for an acquisition.
- Growth potential is a key success factor: the firm must have remarkable financial records of growth, as well as an outstanding and optimistic forecast. Growth rate should be high

enough, around 5%, but the company shouldn't growth too fast because it will accelerate the absorption of cash (working capital), creation of an overloading new customers, attract competitions and if bad managed, brings to a failure.

- At the same time the company must have an above average profitability allowing the generation of cash and better odds to survive in case of crisis. Usually search fund are looking for companies with at least 10/15% of EBITDA margins.
- Recurrent customers help the business giving time to the new owner to understand what's the competitive advantage, why they buy from the company, how to improve the product/service, without worried too much on looking for new customers since the customer based is solid. It's also a financial support due to the fact that they will continue to buy without hitting revenues and profitability margins.
- The stability of the cash flows will help the firm during the transition period and increase the odds to succeed. Most important, cash flows permit to payback the debt holders on time, without breaching the covenants, protecting against unforeseen scenarios and still ensuring a compensation for the equity holders.
- The target needs a strong management team facilitating the transitional period and future decisions as well.
- Important, there should be exit strategies applicable to the target to provide liquidity to the investors when needed, after 4 to 7 years.

Most of the successful acquisition of the search funds reflect these features, plus other qualitative and personal criteria specific for each searcher. It's important to notice that currently search funds are dealing with companies relatively small, with EBITDA lower than 5million and therefore they are benefitting from the fact that angel investors, venture capitals or traditional private equity are not interested and attracted for this kind of companies.

1.2) Structure of the Search Fund model

The evolution of entrepreneurship through acquisition, has seen over hundreds of new funds raised from 2005 to 2013. The continuous successful outcomes increase the attention on the concept of ETA and gained momentum, contributing in this way to spread the awareness of the model, and leading the consolidation of the new asset class across the economic community, business schools and even more important, private investors. Therefore, the new search funds leverage the best practices and successful cases of the past to identify a sort of standardized path to follow when a new one will be raised. Even though more innovative forms for pursuing the search fund model are being developed, the so called *traditional search fund* is the most widely used and suggested by the literature. The entire process consists from 4 to 7 stages: for the purpose of this analysis we assume 5 phases such as: fundraising, search the target, acquisition, operation, and exit.

1.2.1) Phase 1: Structuring the Fund and Raising the Search Capital

The first step for every search funder is raising the initial capital called *Search Capital*. But, indeed, for the majority of the promoters the fundraising step it's the second one. In fact, deciding to raise a search fund it's an important and tough decision both personally and professionally, signing the truly kick off the overall project. It requires a high amount of time spent listening current and former searchers looking for a target or those who have already bought it, as well as whose abandoned the search, in order to have a strong foundation of knowledge for a self-reflection and foresight. With this smart approach, the principal might be helped to build a network within the search fund community, facilitating the entire fundraising process. An effective way to experience and embrace the environment it's through an internship, working directly with a search fund in his first phases, tasting and feeling on field what would look like running personally a real one.

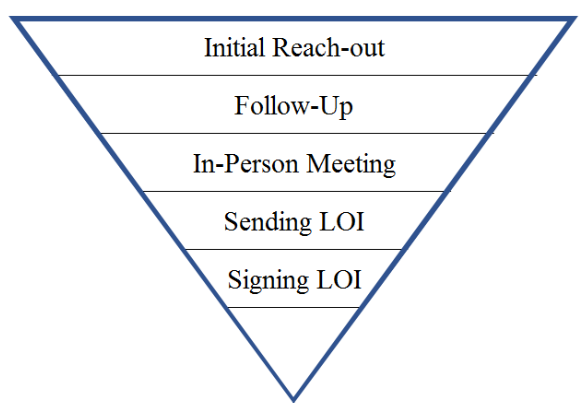
Undertaken this career, the search capital is necessary, and it will be used to set up the fund, cover the first years of the principal's salary and pay the administrative expenses incurred like office space, rents, travels, legal fees etc. The searcher has to reach out a broad network of potential investors like closer friends and family, angel investors, business schools, associates or business owners and executives, institutional search funds investors or crowdfunding platforms to collect a reasonable amount of capital. Part of that, or even all of the search capital, of course can come from the personal savings of the funder and in the latter case will be a self-funded search. The legal fees mentioned before, then, play an important role: in fact, allow the searcher to fulfill the law and securities requirements while fundraising, and for all the steps along the life of a search fund. The legal counselor helps the the founder to document the legal entities for the fund as well as it assists to propose and design a structure to potential stakeholders involved in the process of the search and acquisition capital.

The searcher must select carefully the investors because they will be advisors in the future offering guidance, networks, expertise on deal evaluation, deal execution, and in sharing management practices. The investor pool is crucial also for the acquisition capital needed in the next phases of the fund and yet, they are a financial guarantee in case the seller wants a demonstration of the affordability of the acquisition. Sometimes they are more important especially for the physical presence supporting the up and down sides of the process, for what they can transmit and share and for the networking they owned rather than the cash provision itself.

For all these reasons the fundraising process starts with a formal *Private Placement Memorandum* (PPM). It's a Formal Offering Memorandum written by the principal which embed the investment opportunity presented to the investors. This document includes several aspects of the search fund: the executive summary, an overview of the search fund model, the methodology to be employed with the resources to be invest, the industries and geographic scope, the criteria that will be used to screen the targets. It describes also the timeline of the activities to be performed, a detailed budget, structure of the investment of the acquisition capital, the investment return, the exit strategy and last but not the least the background of the principal with all the motivations which push him to take this career. Once the PPM is completed, it is send out to the investors and proper meetings are appointed to let the parties know and evaluate each other, and make decisions concerning whether they aligned in terms of goals, industry focus, geography, criteria, structure and many other factors. When an investor believes concretely in the fund proposition he/she will transfer the money and gets in exchange a share or shares of the fund. Capital providers receive also the right to be informed when a target will be identified, and he/she has right of first-refusal on the acquisition capital. The latter means that the investor can decide whether step into the acquisition capital obtaining an equity stake of the acquired target or, decline the offer and yield anyway a share of 1.5x the search capital invested. Furthermore, is important to keep alive the relations built during this phase, both with whom invested in the search and with who didn't because they might be interested in investing in the acquisition later on. Some investors, in fact, are more risk adverse and prefer to commit on an identified target rather than finance a young individua to seek for that. Therefore, the searcher has to keep informed the investors sending periodically updates, allowing them to track the progress and assess the effectiveness of the fund.

1.2.2) Phase 2: Sourcing the Target

As soon as the principal raised the funds needed, he/she starts to look forward in finding the right target to step into. Among the other phases the identification of an acquisition target is more time-consuming, in fact it can takes several months before drawn up a short list of targets, sign a letter of intent (LOI) and eventually close the deal before going beyond to the third phase. On average a search fund takes around 19 months to find and purchase the right target. Within this process the searchers have to define a set of industries in which look into based on some prerequisites such as fragmented industries, no high customer and/or supplier concentration, positive growth records, long product/service lifecycle. All these requisites are not meant to be mandatory, but they provide a framework to the principal to start with and focus on. Once defined the industries, usually from 3 to 10, it's time to narrow the search on specific firms' features and there are two kinds of variables followed by every searcher accordingly on his/her criteria: the quantitative ones and the qualitative ones. The quantitative regards more the financial aspects of the business, like for example a turnover higher than $5 million up to $30m, or yet, EBITDA margin greater or equal to 10%. The qualitative ones instead, concern more the wishes of the promoter like the product/services provided by the firm or the location as well as the willingness and commitment of the firm's owner to sell the business. A crucial point for a search fund and a sale of a business in general since many deals fail due to the step back of the owner walking away from the sale. Moreover, other common variables might complicate the scoping out activities, for example those related to the general economic environment of that market, due to specific characteristic of the industry or regulatory issues. After defining the criteria to follow at the beginning of this phase, the principals have to reach out a huge amount of companies in determined industries suiting those criteria to create a sort of funnel, listing them and keeping track of the progresses. During the years the searchers recognized two main approaches to sourcing firms: the proprietary one, and the broker deals flow, also called opportunistic approach. The *broker deal approach* relies on third parties to refer firms that are currently active for sale. These third parties are professional institutions like, for instance, specialized business brokers, small boutique investment banks, accounting firms. This approach is extremely powerful to overcame one of the main qualitative hitch: the willingness to sell from the



business owner. In fact, the professional institutions are collecting only committed sellers, organizing the information needed to filter and screen in an easier way industries and companies' teasers. Sometimes they might show great opportunities in different industries that a searcher didn't capture or thought. Besides, good brokers are useful to obtain critical information about the seller, the company background and they are helpful also to manage the relationship among the seller and the searcher, especially if the former is a first-time seller. All these third parties work on a fee basis plus a percentage when a transaction close. Specialized brokers are not hard to find since they want to be found; they are present online and in many business associations easily reachable through an online research or advertised on industry specific websites, publications. A searcher may call hundreds of brokers and to each of them he/she has to market him/her-self communicating few most important things: access to capital, determination to acquire soon a business, credible professional, the criteria chosen. If the principal succeed, professional institutions will send him/her some teasers in line with the requirements shown, depicting the business and a financial performances overview allowing a first meaningful screening. After this first screening, the searcher has to contact again the brokers asking to go further with the potential candidates just found out. After signing a nondisclosure agreement, the principal will receive a *confidential information memorandum* (CIM), the main important prospect a broker can give. The CIM contain a deep dive analysis on the company subject of interest, generally 40 pages long, where is described, among others, competitors, the firm's business activities, assets and financial results, future projections, employees, customers.

The *proprietary approach* instead is a method based on seeking by themselves the information uncovering potential targets in particular those who are not actively marketed. It consists to reach out thousands of companies' owners expecting only few of them replying, around 5% to 10%, interested in an initial conversation. The first goal then is to create a list of companies to contact using all possible kinds of ways; online search, trade association members list, trade show exhibitions, database, or outsourced services. In this phase the searcher's network play a key role, in fact he/she may ask to family, friends and more important, to the investors group if they are aware of firms on sale or potentially.

Often in the search fund's website there is a reference to contact the fund if someone knows a potential target, and in case of closing this individual can get a reward in percentage of the size of the deal. (See below)[4].

Contact Us

For further information please contact our Principal, Ben Shamash, directly. Klaro Partners also works closely with intermediaries and will offer a referral fee if we successfully complete a transaction.

As said before the approach requires to contact directly the business owner, showing the search fund characteristics, the business proposition and a description of the searcher. To do that the principal has to send emails, letters, cold calls, participating in industries conferences and tradeshows looking for a first conversation. A warm reference from personal or professional contacts is always preferred, even better if it will be done by a "River Guide[5]", because leads to a higher response rate. Once establish the first contact, the next goals are understanding if the owner is really interested in sell the business and gathering as much information as possible to be able to apply the initial filters and screen the potential targets. Further, a searcher needs to end up with a prospect, CIM, perhaps signing a nondisclosure agreement in order to evaluate properly the business as a whole and decide the next actions.

This method leaves a wide room to the searcher to decide all the details of the phase, starting from the guidelines needed to figure it out the industries in which look for. As discussed before, in both methods the criteria are necessary to limit the scope of the search. However, in the broker approach you need to submit specifically the variables and not always the brokers are able to provide what exactly is wanted. Whereas, in the proprietary method a searcher can used and applied what precisely fit best for him/her. The downside of the proprietary method is that requires a huge amount of effort: the principal has to reach it out an enormous amount of businesses owners before meet a potential acquisition target. The common way to overcome this limit consist in conducting a deep dive in selected industry, identifying attractive niches and contacting the owners within these specific industries. Usually searchers focused on 3-4 industries at a time in order to improve the probability to keep in contact and start a negotiation as well as moving from a sector to another if one industry is not giving positive results at all. Even though typically searcher focus by industry, many of them focus their search geographically. An industry focus can lead to a faster result, but a

[4] Klaro Partners leaflet: www.klaropartners.com accessed on April 20, 2018.

[5] River Guide: Former CEOs or trade association presidents in the target industry, who are tasked with providing the searcher with introductions to acquisition opportunities and industry insights.

geographical attention can help the searcher to speed up the process narrowing the scope of the research.

Indeed, most of the searchers are using a mix of both to increase the chances and the opportunities. For example, brokers are useful to receive marketed targets directly from the market and turns in an easier and quicker way to get a first contact with owners willing to sell. However, these targets tend to be more coveted due to the "public" availability of the information since all the funds might collaborate with the brokers, increasing competition and therefore prices and searchers need to fulfil the deadlines of the corporate houses. Further, the information obtained from the brokers might be more expensive compare to those gathered by the proprietary approach but, on the other hand, you can save time. It embeds also the risk to embrace an industry/sector in which the principal is not fully committed into, inexpert, or he doesn't have enough competencies to run a business in that environment because is too complex and requires a certain level of experience.

As mentioned before, another important way to conduce the scouting phase is involving the investors base. They have the right experience and insights, well-known in the business environment with a large network to be able to help the searchers focusing in specific niches of the industries, giving guidelines and sometimes introduce them directly to the owners of the targets. For that reason, is important maintaining a proactive relation with investors, keep them update and informed through both formal and informal communications like monthly or quarterly updates outlining first of all the budgeted expenses versus the amount spent, the search funnel, the status and rational of each deal that progressed to the letter of intent, with at the end an overview of the goals for the next months. Among all, a small group of investors are considered as coaches, mentors, with whom the principal has a closer relation speaking with them more than once in a week. They are strategic for deals evaluation, binding strategy, or every issue the searchers may have along his/her path. Although they invested the same amount of search capital, their value is priceless for a searcher and the fund in all the processes.

The sourcing phase ends when a searcher obtains a short list of potential targets, usually around 15/20 opportunities, worth enough to spend more time and resources on them. This list is the results of a long funnel that drives a searcher through reviewing hundreds of teasers and CIMs. Either you gathered them through brokers, therefore professionally prepared, or through a self-made search with the information a searcher might get asking and interviewing an owner or, yet, a combination of the two. Accordingly, then, he/she will screen the prospects applying the quantitative and qualitative criteria in both the industries and in the companies with which he/she kept in touch along the phase. This phase demonstrates also the resilience of the funder to the “no answers” or declinations coming from the cold call, emails, letters. It is extremely important to not lose the patience, tenacity, determination and focus on the aim of this sensitive phase.

Whatever the approach a principal use, but especially for the proprietary one, key elements of a successful search phase are the creativity to find sellers, a relentless drive and discipline, and a well-built organization to track and planning all the activities needed. The latter is extremely important not only for the search phase but indeed also for the fundraising of the fund: keeping records on acquisition opportunities and fundraising helps the principals to easily collect information as well as classify and centralized it, capture data on the target, analyze activities and results, and assist the planning for the future actions.

1.2.3) Phase 3: Evaluating and Founding the Transaction: The Closing

Once a search funder ends up with the short list, whatever the methods he/she used, the third phase starts, going through all those potential targets gauging them in an iterative process. Tied in this phase there is also the effort of the searcher to find the best capital structure of the potential acquired and bring onboard the stakeholders involved to collect the amount needed to buy it, the acquisition capital.

The evaluation phase is different in every single acquisition; however, we can define a pattern that almost every search fund has to walk through. This process can require from 6 up to 12 months depending on how many targets a founder has to analyze, his/her productivity and the collaboration of the seller to provide the information required along the process. Usually this phase is divided in 3 sub-steps: a preliminary due diligence, the first valuation of the business heading to the Letter of Intent (LOI) and lastly the comprehensive due diligence followed by the closing. The goal of this phase is close the deal, meaning that the searcher need to find the right target to acquire, sign a LOI, perform a meaningful due diligence, agree on a price and major legal terms and secure the equity and debt providers to finance the acquisition. To do that he searcher needs to be smart and clever to use effectively the resources, timewise and moneywise, setting priorities and follow a disciplined process with attention to the details, caring for the relationship with the seller while identifying potential risks and opportunities without incurring in a tunnel vision[6].

[6] Tunnel Vision: becoming too focused to ignore the effect of the changes that occur along the way

1) Preliminary Due Diligence:

The first step, preliminary due diligence, is critical because based on the limited and high-level information gathered on the second phase (sourcing the target) like the teaser and the CIM, a searcher needs to decide if sending an *indication of interest* (IOI) or forsake the deal. As aforementioned said, the third phase is an iterative process, a go/no-go decision where in this particular step is fundamental to understand if the owner is willing to sell and if the business is an enduringly profitable one. These allow the funder to continue to pursue the evaluation and, if it's worth it, to focus on it putting effort, time and money. Better saying, the founder has to evaluate the industry and the firm itself, perform a rough financial analysis, define a first range of company's value, discover issues and doubts to sort them out during the next steps and, important, built credibility with the seller. In order to understand the purpose and the aim of the owner, a searcher has to bring smart questions at the right time putting the seller in a condition where the answers disclose as much as possible of his/her intentions and company's profile. It's a sensitive task because a searcher has to keep in touch often with the owner, being demanding towards him/her, in a situation where no one of the parties are strongly committed. For that reasons, the search funder has to pay attention on how many and which kinds of questions address to avoid frictions with the owner that might ruin the relation and accordingly the deal. Being open in sharing sensitive information about the business and demonstrating commitment on the sale (involving consultant, sharing the sale development to the employees, asking a schedule and a price) are all positive signals that anticipate at least a willingness of the owner to sell the business. Again, due to the time and financial constrains a search fund shouldn't spend its scarce resources to evaluate a company where the owner is just interested in a free pricing of his business from a clever principal rather than be committed to sell it. In the meantime, when one some targets are identified, usually a non-formal investment memorandum is sent out to the investors before a IOI will be directed to the seller. This is done first, to keep updated the search capital investors and second, to receive feedbacks on the selected target/s. The knowledge and experiences of the search capital investors are fundamentally useful to understand, with those level of information, whether an industry and a company are or not a truly potential target. If the feedbacks are positive, the searcher can perform a deeper analysis of the industry and even more the business, trying to collect other evidences both qualitative and financial data. These analyses are needed to give a first non-binding valuation preparing the basis, including a firm's value range, to explore the target thoroughly, in a comprehensive due diligence. In order to release a first rough range of evaluation he/she has to build up an evaluation model based on the information gathered during the previous phases such as for example the CIM, the prospects and the conversations, interviews had with the owner. It is a rough model where, as soon as new information, data, scenarios, opportunity for the company will be discovered, the searcher needs to update it. Once the financial and non-financial data have been analyzed and the search capital investors show interest on the opportunity, an Indication of Interest is signed off to the owner that can decide if agreed or reject. This document is not binding but shows, if signed by both the parties, the willingness to commit themselves to the deal and going through the next step. An IOI can be in a written form but could also be a verbal agreement in a conversation with the seller or with the broker.

2) First Evaluation and the *Letter of Intent:*

Once an indication of interest has been signed, or accepted if verbal, the second step starts. In this period should be performed a deeper analysis on the industry and on the company, set the terms and conditions of a potential acquisition and identifying what really matter for an in-depth investigation. Since the parties agreed on a mutual commitment, the searcher has to require more relevant information about the company. For example, more accurate financial data of the past 5 years, perhaps the plan for the future, balance sheets and cash flow statements. This quantitative information are necessary to assess the performances of the company and integrate the data on a financial model to get a more precise valuation. Yet, qualitative information is required as well defining the competitive position in the market, the key success factors and the main risks of the firm. For example, the concentration of customers and why they buy from it, or suppliers and why the firm source from them, the length of contracts if any. This exercise is also useful to understand where to investigate more carefully during the comprehensive due diligence highlighting the strengths and the weaknesses. The search funder may also visit the company to better understanding how the business operates, how they produce the product/perform the services, who are the key employees. It's a great opportunity to see how the business is run, the productivity of the workers, meet in person the seller feeling his/her skills and capabilities. Usually the owner keeps the sale quite within the management and the employees: for that reason, is common that the searcher does the onsite visit on the weekend, won't meet the management and will introduce to the people as a consultant or an investor.

Main goal of this step is to sign a letter of intent with the seller, and the crucial point of that agreement is the valuation of the business. All the information that have been gathered in different phases and steps are now necessary to gauge the firm and reach a close target price. Consequently, the searcher needs to run one or more evaluation methods and among the basket of different possibilities the most common one is the *buyout model*. This method is the result of a financial model crafted starting from the information collected and taking into account all the new data, and the future developments. It's a flexible, dynamic formula where it is possible to modify the variables, the rates, the corporate structure, the outlook and get immediately the outcome as a searcher obtains more and more information. This is the same financial model suggested before. Another approach is using *public comparable* seeking for similar transactions on the market publicly available. Although the size of these transactions could not represent exactly similar deals in the small and medium enterprises environment, the multiples like Enterprise Value on EBITDA or Enterprise Value on Revenues are a good proxy, giving a meaningful benchmark, since they are ratio and then neutralizing the size effect. Of course, they are used as a litmus test of the industry, companies with similar business model or customer base and therefore not used without adjusting it before accordingly to the specific case. Yet, the trends show how the value of a SME is bounded in the multiple range that goes from 3 to 5 times the EBITDA. Higher multiples are unlikely to be seen, unless the firm has a long track of huge profits and massive growth potential for the future. On the other side, lower multiples are often seen in distressed firms and consequently not in the interest of a search fund. Similar to the previous method, a searcher can use previous deals like M&A transaction to derive similar multiple to apply in his/her specific case, again applying a discount to adjust the deal for the specific size and case. It is valuable to mention other two methods, the *DCF model* and the *asset valuation*. The former is a theoretical approach where a discount rate is obtained use similar companies in the market, assuming a hypothetical capital structure to discount a forecasted cash flows series. Despite is a powerful method if used in other context, for the meaning of a search fund is less relevant because there are too many assumptions and the outcome might mislead the evaluation. The asset method, instead, takes into consideration the liquidation value of the target, and/or the book value of the assets. Since the chunk of the search funds' targets are healthy and enduringly profitable the approach is not relevant, even less if evaluating a service business where there are not meaningful assets on the balance sheet. As said before, the buyout model is the strongest method, that fits best with the constraints and needs of a searcher allowing to adjust and modify agilely the formula, creating scenarios and what if analyses easily. Other methods are used to support the evaluation and strengthen the price/range set.

If all these analyses are positive, the searcher proposes a Letter of Intent to the counterparty. The LOI brings together most of the information needed for further negotiation such as the terms of the transaction, the price and other strategic economical and legal evidences. This document is an evolution of the Indication of Interest and some parts may overlap, however, it's more detailed since it specifies key terms in terms of transaction structure, amount of seller debt, timing of the closing and exclusivity period, confidentiality agreement. The more accurate the LOI the better because it would be use as a base for further negotiations and drafting the purchase agreement. Often the proposer can ask for an exclusive LOI, meaning that only the search fund can deal with the target in an acquisition process. Even though other written form can be used, like a non-binding term sheet, the LOI document is significantly important since it commits the parties stating the intent of the owner to sell the firm, agreeing upon an evaluation for the business and leading the process to the next stage. The letter of intent is not a mandatory step and sometimes the parties can discuss directly a purchase agreement and go straight to the closing of the deal.

The seller can either accept or reject the LOI, or yet re-negotiate some of the terms proposed on it. If he/she signs it, both parties are now even more committed into the deal, willing to spend additional time and effort to close the sale.

3) Comprehensive Due Diligence:

The searcher at this stage, the third, is committed to complete the confirmatory due diligence, perfect the capital structure of future organization and arrange the debt and equity financing while drafting carefully the binding purchase agreement.

The comprehensive and confirmatory due diligence is meant to investigate and solve all the doubts figured out during the previous steps and phases, testing the reliability of the financial information and the trustworthiness of the seller and making sure there aren't negative "surprises" that might affect and kill the deal. The searcher must perform keenly the due diligence, focusing on some key aspects, and if needed ask for support from accountants or lawyers experts in those specific topics.

First of all, this step is extremely important to cross check if the information given by the seller are fully complete, reliable, and nothing have been hidden on purpose to show up a better view of the company. A searcher has to bear in mind that there is an information asymmetry in all the acquisitions and the owner has an advantage over the buyers on that. If there are discrepancies he/she needs to ask clarifications over the issues and gauge the fair and honest, or not, answer of the seller.

Secondly a deeper accounting due diligence is due: while in the past phases and steps the search funder relied on given data now he/she has access to certified documentations. Through this step it is possible in fact to double check the correctness of the historical financial reports replicating the cash in and out flows following the bank accounts transactions, the so-called *proof of cash*. Of course, accounts receivables and payables have been changed and the inventory as well has been moved leading a mismatch of the outcomes, but the results shouldn't be far off. Another way to test it is comparing the pretax income stated in the financial reports to the pretax income declared to the tax authority. Again, the number won't match perfectly because some adjustments are needed however, yet, shouldn't be too different. Furthermore, a searcher wants to ensure that the historical performances are likely to replicate in the future. Therefore, a *quality of earnings review* will be performed, breaking down each line item of the sources of revenues and costs in order to investigate how, when and to which extent those variances happened and if the might have chances to raise, decline or recur. It's an exercise to understand why the target obtained certain results: might be a matter of recurring customers, patents, special contracts, expanded operations or, looking on the cost side, what's the main cost drivers, if the rent fee is at market price, how they reduced costs and if these benefits are lump-sum benefits or they will last longer, etc. Besides, the accounting due diligence is useful to assess if add-back are needed: an add back is an income/expense that occur occasionally and after the acquisition is not likely to recur. It could be a bonus, a fine, an insurance indemnification, personal expenses, in general extraordinary costs/revenues. The add-backs affect directly the EBITDA and therefore the valuation of the target. For that reasons, the principal needs to gauge carefully whether an item has to be consider as an add-back, accepting or negotiating the owner's point of view. Another accounting trouble maker, usually underestimated, are the taxes: in particular in the SME environment companies enjoy special tax treatments and regulations and these can vary from country to country. Then an expert professional has to verify if all the taxes have been paid during the life of the company, or at least during the last legal period actionable from the tax Authority. Again, surprises the can affect negatively your acquired firm, especially the cash flow, are not welcome.

Another room to be scoped out is the legal due diligence, referring into all the contracts and agreement in place at the moment of the analysis and that would be confirmed, reshaped or re-negotiated if the deal closes. Business contracts as the rent of the offices, lease of the machinery, distribution agreement, licenses, non-compete agreement need to be disclose and carefully understand. Some contract may last for a few months others for much longer and some other need to have a change of control consent from the counterparty. Thus, the searcher has to be aware and prepared of the additional work he/she needs to do in order to maintain at least the relevant contract in place, re negotiating them if needed.

At the end of the due diligence period a search funder will get in touch with the sensitive people, the customers and employees. Generally, an owner is afraid to introduce him/her early in the stage, while when he/she get closer and more confident can allow to meet, speak and interview them. Through this opportunity the searcher can learn the strengths and weaknesses of the business understanding from a costumer point of view what are the features appreciated that made them a customer of this firm, indicating the industry trends and new opportunity of development. It is also worth and useful to ask around to other customers in the same industry but in a different area to collect food for though and new inputs from a diverse perspective. On an internal side instead, employees, managers and salesforces can give insights about the business and how the product/service are made/performed, marketed, sold. Yet, the searcher can also asses if what customers need are aligned in what employees do, or value. Lastly, within these interviews is possible to find out keys customers and employees, verifying their capabilities and strategically thinking on how to retain them in the future.

To complete the comprehensive due diligence a specific analysis has to be done regarding the peculiarity of the business that you are going to buy. A specialized due diligence then, will be performed by a professional hire on purpose to look into the specific assets/liability or risk of the target under analysis. Usually this specialized due diligence regards a particular equipment used by the company that is a key asset, or a technology system, a software facilitating the on-going operation of the business. Further, a specialized due diligence is needed when a company operates in a highly regulated market like the pharmaceutical one for example, or in an environmental hazard where the compliance with the regulations play a big role in the survival of the firm.

Concluded the due diligence after 3 to 4 months the searchers might have enhanced, completed or disclosed new information and clarified doubts with the owner. Based on the feedbacks and the quality of this new scenario there are some potential action that can take place: after the due diligence the searcher confirm and close the deal as agreed on the Letter of Intent and thought so far; something changed, not enough to kill the deal and the parties negotiate for an adjustment of the price and/or a change in the deal terms; the new scenario is completely different from the beginning, significant mismatch with the initial picture lead the searcher to abandon the deal. If a target fell into the latter case, other or new targets will be analyzed starting from the phase 3. In the first case the parties are going through the purchase agreement with the respective lawyers and attorneys, whereas in case of a re negotiation of the price and terms both parties will try to get the best out of that. On a buyer point of you, would be necessary to mitigate the positive and negative sides of the new picture of the target, using smart legal instruments that act as a cushion like the amount of seller debt, earn-outs, non-compete agreement, transactional period.

CAPITAL STRUCTURE

In the meantime, in a positive outlook and hopes, the searcher has to proactively operate to build up the perfect capital structure of the acquired company and bring on board, ready to transfer the money, debt and equity holders. While the opportunity to finance the acquisition fully in equity are low, the odds to achieve the capital required using a combination of debt and equity are higher. Then, the first step is understanding how much of each source of capital fits best with the target and the circumstances of the search fund. Search funds typically finance three-fourth of their acquisition with debt and the remaining quarter with equity. Within debt, there is a distinction between bank loan, non-bank loan and seller debt: the first is the classic *bank debt* lent by a credit institution and constituting the bulk of the total debt. Banks requires seniority on this type of loan supported by covenants, collaterals and personal guarantees, meaning that this loan is the first one to be repaid through the cash flows and assets; it is monitored by ratios signaling when the company is suffering a lack of liquidity and an increasing risk of insolvability; pledge on some assets ready to be sold in case of breach; making the owner responsible with its personal private assets if the firm wouldn't be able to pay back the principal amount and interest. Banks are playing in a hyper regulated market where they cannot lend money to excessively risky borrowers. For a commercial bank lend almost half of the deal to a small/medium company is quite risky and then they are requiring different kinds of guarantee to diversify the risk and comply with the regulations. Where the banks couldn't go, usually the private lenders partnership or finance companies operate. These institutions provide the *non-bank loans* to the SMEs, requiring as well guarantee and a higher cost of capital to compensate the higher risk of the deal. All the senior debts cost a fairly market price interest rate plus a spread, and they charge a fee. Additionally, they can require an excess cash flow sweep clause, forcing the company to transfer up to half of the excess cash flow at the end of the economical period as reimbursement of the principal loan.

Another interesting form of debt is the seller debt: according to the Authors mentioned before, almost one-third of the acquisition capital come from the seller. One of the main reasons why a buyer would look for a *seller debt*, is that in this way the former owner will remain linked to the business, helping the firm to succeed after the sale creating an economic incentive. Seller debt is known also as "seller note" and it's an obligation of a company towards the seller, subordinated, without personal guarantees or covenants. Sellers, agreeing this kind of debt, can limit any distribution of cash to equity holders before the notes are fully paid back and limit any increase of the senior debt; in exchange sellers yield higher interest rate ranging from 5% to 8%. On top of that the parties can arrange *earn-outs*, defer payment based on certain level of future performances. Thus, part of the price will postpone in a mutual agreement and will be paid out only if firm's performances hit specific pre-defined targets.

The remaining part needed to acquire the target is financed on the equity side through acquisition capital and management rollover. Acquisition capital is sourced from investors, starting from sending an investment memorandum (IM) to the same stakeholders' pool that invested in the search fund during the first phase. At that point the funder asked to family members, friends, professors, institutional investors and his/her network to finance the search phase. Keep informed the investors pool frequently on how are going the due diligence, what's the strategic plan thought for the future of the target is a smart choice. It will help the searcher to do not lose the contact and relations with them allowing an easier discussion when asking for the acquisition capital. Someone already bet on it, someone else maybe not, but nevertheless at one step left to acquire the target all of them might be useful and invest on the searcher if they didn't before. The IM summarized the investment opportunity participating in the acquisition, describing the firm and the industry, the plans for the future growth and expansion and the exit strategy. It's important convince past and potential investors commit themselves investing more private equity in the deal. To do that a searcher has to clarify which kind debt there is in place already, or planned, which kind of security they will receive, the return associated and a time frame of the operations. In almost all the cases equity is the last source of capital to be repaid because they are sharing the same risk as a searcher does. The latter has to bear in mind that the return must be high enough to compensate the risk and the illiquidity of the capital immobilized for the investment. A sufficient *Internal Rate of Return* (IRR) for this asset class, the search fund, is around 25% annually, meaning that the discount rate used to actualize the cash flows yield by the equity investors along the period needs to be at least 25%. As already said, the search capital investors have a right of first refusal, that means they are not obliged to invest more capital later in the life of the fund, but it's a right. If they decide to not invest more, they will roll in to the acquisition with a 50% premium reflecting the risk to have invested in the search whereas if they invest more they obtain the same multiple rate on the search capital plus a stake of the equity proportionally to the amount of acquisition capital invested. Instead, new investors, perhaps among those who didn't invest at the search phase, obtain a stake on the company accordingly on their investment quota. In exchange of the money invested all of them, normally, receive a *preferred stock security* that is a particular type of share that better fits the needs of the search funds and especially the investors 'ones. The preferred stock securities insure capital providers to have 1) a return of the amount invested right after the seller note has been paid, before the searcher gets any reimbursement, 2) a preferred return on investment that range from 6% to 9% annually, and 3) an equity interest on the remaining cash flows at the exit date. The latter are usually divided among investors and searcher in a 75/25 proportion in the so called *catch-up,* a remuneration for the risk taken and job done of the searcher. Again, the total return on investment should be no lower than 25% for the investors, representing a good enough profit investing in a SME firm. Another type of equity is the *management rollover equity*: this happened in more structured SMEs where the top management had been rewarded with a stake in the business. In that cases if the searcher wants to retain keys senior managers, he/she can ask them to rollover part of their stake into the new firm's equity, and for that reason considered as part of the purchase price.

In this way managers can cash-in part of their bonuses and at the same time the searcher create a business incentive to remain into the company and operate on his behalf.

Throughout the various steps tackled in the first phases the searcher built up a financial model with which, at this time of the process, is able not only to evaluate and price the target, but also plan and forecast what's the best combination of different types of financing. Working on the buyout model, in fact, the searcher can enter all the inputs necessary to forecast a detailed business plan for the following years, with a strong focus on the cash flow statement. With the tool is possible to predict which, and especially when, are the main outflows of cash that can compromise the liquidity of the acquired or stretch the covenants and accordingly define the best mix of capital. Scheduling each capital item with its own deadlines and payment, the model allows to change the main variables like interest and return rate, earn-outs and, in particular, the proportion of debt and equity necessary. Not only through the model a search funder gauges the sustainability of the strategies thought for the business, but also it tests the capital structure and very immediately the internal rate of return requested by the investors. As stressed before, the buyout model must be the center of the evaluation process because it's the cornerstone of all the decisions around the acquisition that accompanies side by side the searcher along the way to the closing.

PURCHASE AGREEMENT

Terminated the comprehensive due diligence and still raising the acquisition capital, a searcher asks his/her attorney to draft a first version of the *purchase agreement*. This phase last around one month where the searcher and the attorney will work closely together on writing down all the terms, conditions and clauses of the acquisition. Starting from the LOI and his content they take into account all the re-negotiations done, the performed due diligence, the evaluations and the professionals' reports. This first draft will go back and forth from the searcher to the seller's lawyer and attorney. Subsequently, the comments and question marks will be discussed and negotiate defining the details of the agreement that represent the legal purchase contract. Attached to the purchase agreement there is all the documentation provided by the seller and reviewed by the searcher like contracts, payrolls, pending litigation, financial statements, permissions, and so on. To complete and fulfill the purchase agreement precisely the founder has to define critical aspects of the acquisition that will affect the future of the business. The first of them is the legal entity form of the search fund: in the USA for example the *Limited Liability Companies* (LLC) is the most used because of his advantages in the search fund world such as the limited responsibility, lean structure, taxation, easier to amended. The legal entity defined will be as well the borrower of the senior debts and the issuer of the securities to investors. Secondly, each acquisition is taxable and accordingly with the laws in the country, these costs are deductible over a certain period of time on the firm's taxable income. Yet, accordingly on how the purchase price will be allocated to the assets the amortization and depreciation affect your income tax base. Less taxes means more cash available to repay the debtholders and operate the business: for that important reason it's crucial to structure, with the support of a professional, the purchase to get the best tax advantage out of that. Furthermore, representations and warranties deserve attention because they provide disclosure on ongoing litigations of the firm, if any, and give to the buyer room to claim against the seller, if needed. In addition to that the parties agree also an escrow account and set off claims, a precautional provision of the buyer that insures the commitment of the seller in case of future claims.[7]

There are then other bonded documents displayed in a purchase agreement that have been already drafted in the letter of intent and negotiated along the process. In the purchase agreement they are formalized; example are the seller notes, non-compete agreement, working capital peg[8], employees agreement and seller transition, the latter discussed later.

At the end of the third phase both parties, the searcher and the owner, are highly committed considering all the time and effort invested, working hardly together to close the deal. All the documents prepared by the searcher and his/her attorney are reviewed and signed one by one by the seller and his/her legal adviser. The purchase agreement probably will be the longer one, but in these pools of documents there are as well all the third-parties agreement like the bank's debt and the equity share purchase contract, the non-competition promise, employee's agreement, the seller notes. Once the seller agreed and sign all of them, the deal closes, and the searcher is legally the new owner of the company.

1.2.4) Phase 4: Transition Period and the Operations to Create Value

After the acquisition of the target, the searcher becomes the new CEO of the acquired and there are some more important tasks to prioritized among all the priorities that a new CEO has to tackle. Firstly, it's important to communicate officially that a transfer of ownership took place and the CEO, former searcher, will introduce him/her-self to the employees, suppliers, customers, and all

[7] An escrow is a cash deposit deducted from the acquisition price (around 1%) where the buyer can tap in case of claims. After the escrow period agreed, the money are unlocked and goes to the seller.

[8] Working Capital Peg: it's the working capital level a buyer wants at the closing date of the acquisition avoiding WC deficit/excess

the main stakeholders involved in the business who have to be aware of the change. In this occasion, the top manager gets the chance to reassuring that no big changes are going to happen in the short term and he/she can give some flavors of the goals to be achieved and the plans for the future. At the same stage will be announced the transition period (discussed later), if agreed with the seller, in which the latter remain in the company for a fixed period of time while the new manager gets familiar with the company and the players involved in it. Changes inevitably shake the equilibria and a transition period is needed to avoid negative shock and smoothly accompany the new CEO into the existing network created by the seller. Employees, customer and suppliers can get confused seeing a new person taking care of their business, or part of it, while on the other side the searcher must understand and get to know how the relations have to be handled. Cash is a crucial life point of the firm and the search funder must take over as soon as possible the processes bounded within cash in and out flows. In particular, is necessary to create a process through which the searcher has the control of the outflows, and the possibility to approve or not a payment. Is also necessary to create a model forecasting the cash flows of the next quarter allowing the company to prepare in advance for the big expenses, managing the schedules of the payments avoiding lack of liquidity. Yet, is important for a new CEO to step into the key relations such as the customers. Meeting the clients and introducing itself as the new manager of the firm would be a valuable opportunity to understand better the personal traits of the clients and the business reason of their purchase, the firm’s competitive advantage. Moreover, there is room to discuss directly with the final user on how the product or service can improve and new ideas of developments enriching the basket of growth opportunity, for free.

The *transition period* (TP) is a time frame in which the seller remains an active player of the company even if he/she is not the legal owner anymore. The TP is usually mentioned in the letter of intent and subsequently formalized and agreed in the purchase agreement. It’s not mandatory and the parties agree on the term and condition, clarifying roles and responsibilities to avoid issues and complains later on. It can last from 6 to 18 months and often it is split in two moments: the short-term transition period and the long term one. The short-term transition period agreement is used to engage the seller into the business on a daily basis under a monthly compensation, for a handful of months. Whereas the long-term period is more a residual support exercised through occasional advices like a consultant does, paid on an hourly basis, and it can last for one year depending on the complexity of the business. The length of the TP depends mainly on the motivations of the seller along with the relation established with the buyer and on how he/she feels

still important for the company. The seller will commit him/her-self on spend more time and effort on the company sold for, perhaps, personal motivations that plays a relevant role. However, the searcher can entice the seller including good economic incentives on the terms of the agreement. For example, a seller notes or an earn-out are good enough incentives to bound the former owner to the firm performances and help the CEO to run the business shoulder to shoulder in the firsts months.
A transition period helps the searcher to have a coach driving him/her through a thorough understanding of the routines of the business. At the same time, it would calm down the uncertainty and anxiety within the employees, afraid to lose their jobs, and other stakeholders afraid to see their agreement, already in place, changing.

In between, in an underlying process started at the beginning of the search fund, the funder harvested a list of actions to take to create a *sustainable strategic plan of growth*. During the screening of the industry, searching for a target, analyzing the teasers, the confidential information memorandums, the in-depth due diligences and all the suggestions coming from external sources (investors, employees, clients, owner) the CEO has plenty of ideas to create and add value for his/her company. After the transition period, while few changes can really happen because the searcher is acknowledging the business, he/she starts to team-up with the management to kick off the growth plans elaborated in these months. There are several growth strategies that a small medium firm can follow, but each firm in different industries and geographical areas has different needs and opportunities. The ability of the CEO is to find the ones who fits best with the specific requirements of the company taking into consideration that the aim of those strategies is the creation of a long-term value. Generally, is possible to divide the growth opportunities for SMEs in organic and inorganic: the formers are internally developed and can derive from a modernization of the process, technology; increasing and conquering market share building up new customer relations; increasing prices; in exploiting a new channel selling on line. To create value internally it’s suggested also to reduce the inefficiencies and wastage, harmonizing the processes and operations to reduce cost and liberate cash to re-invest or enhance the EBITDA margin. Externally, inorganic growth is achieved through mergers and acquisitions of strategic competitors, or firms along the value chain, both upstream or downstream, to obtain synergies; another inorganic way to growth expanding the production is through licensing or building strategic partnerships or alliances.

These are only example of opportunities that a CEO can opt for and they are not alternatives but, again, each manager needs to gauge what are the best strategies to pursue in a combination of organic and inorganic growth. Big role is played by the board of directors, where some investors that backed the searcher are sitting, because guide and support the CEO's choices. It creates an explosive mix of fresh energies and motivations with priceless experiences and knowledge of the senior investors, eager to create, wisely, as much value as possible.

1.2.5) Phase 5: Exit the Deal

The creation of value through a well-executed strategic plan of growth is a necessary condition to the purpose of a search fund model. As said at the beginning, a search fund is a private equity vehicle aimed to buy and sell a business after a holding period. Search funds' investors and searchers seek for a return, actually, a higher return compared to other assets class to compensate for the opportunity cost of capital and the risk associated to a small medium enterprise investment. While for the debtholders (banks, financial institutions, sellers) the reimbursement of their loan takes place during the holding period throughout the cash flows generation, the equity holders (investors, managers) have to wait the closing of the fund to cash in their investments. The searcher is the last one that receive his/her part of the remuneration.

A search fund holding period is usually longer than a normal private equity one, and this is reasonable because the first months after the acquisition of the target are dedicated to understanding the business. Moreover, it reflects the commitment of the searcher to bring long-term value to the company and the willingness of the investors to hold a long-term investment. The usual holding period is 7 years, although the exit timing varies accordingly to the investor's needs and the decision of the CEO together with the board of directors. In example, sometimes institutional investors have to liquidate their limited partner in a narrower schedule and can be either buyback from other investors or liquidate directly.

The exit strategies available for a search fund are more or less the same of a traditional private equity fund; the main difference is the size of the target that can affect the odds to attract interest from the biggest companies or the stock market. This doesn't mean it is impossible or unlikely to occur but means that a search fund acquired business has to show stronger growth, ability to hit the business plans, no vulnerabilities or the competences to overcome them, and a structure to support the IPO during the following years.

A searcher then can create liquidity to pay back investors through.

1- *Selling or Merging* the business to a *strategic buyer* as might be a big competitor in the industry, or a customer/supplier willing to integrate his value chain. In both cases the aim of the acquisition is strategic, as mentioned, because the buyer is looking for synergies on the core business of the companies.
2- *Selling or Merging* the firm to a *financial buyer* such as a private equity fund. In this case the purpose of the acquisition is to growth the company and sell it again after some years yielding a capital gain on the total enterprise value of the acquired.
3- Going public, meaning going through an *Initial Public Offering* (IPO) and sell the stocks of the company on the market. This is unlikely to occur since usually the search fund acquired firms are not big enough to be desirable for the stock market.
4- *Share buyback* by the company allowing one or more shareholders to cash in the investment while the others still remain equity holders. Of course, to repurchase its own shares, the firm has to have either enough cash, or borrow liquidity to a bank, for example.
5- *Share purchase* by new or current stockholders, also management, in order to liquidate one or more shareholder willing to leave the ownership of the firm. On the other side, there will be someone interested in increase his/her ownership or is necessary to look for a new partner that step in to the investment.
6- *Debt restructuring* with a dividend payout: refinancing the debt structure and seniorities a company can raise more debt and distribute dividends or payouts to satisfy investors' requests.

1.3) Evolution of the Search Fund Model

The search fund model depict above is the representation of a *traditional search fund* and so far, the most common option for people pursuing an entrepreneurship through acquisition path. With the time passing and the perfection of the technique, other kinds of search fund were developed as an alternative of the traditional one. Among all, the most common choices of a new searcher are: sponsored search, incubated search, self-funded search and crowdfunded search. Since some pros and cons sometime are repeated because of similar characteristics are shared, only the main peculiarities are discussed below.

a) *Sponsored*: the sponsored search fund differs from the traditional one mainly for the number of investors and the role they play. In fact, only one investor, named the sponsor, provide both the search and acquisition capital becoming de facto the controlling shareholder of the search fund. This feature gives more credibility to a funder because he/she is backed from a single committed wealthy capital provider and saving a lot of time without going back and forth to convince 15-20 investors. The sponsor could be an investment firm such as a private equity or a family office that usually provides the infrastructures like physical spaces, software, tools, service providers for the due diligence phase, brokers, lenders; an already established network. Being "in-house" of the sponsor, allow the searcher to keep in contact on a daily-basis with the shareholder asking/listening for advices, suggestions. On the other side a unique source of capital means that the sponsor owns the chunk of the equity and therefore control the Board of directors influencing strategic decision, nominate the management team, and in an extreme case, fire the searcher as a CEO of the acquired.

b) *Incubated*: an incubated search fund is a relatively new concept born in 2015 (Evolution of ETA – Chicago) where an *incubator*, the sponsor, provides all the capital needed for the search phase and the acquisition to more than one search fund, incubated then in to it. People who runs an incubator are usually past entrepreneurs who already experienced the search fund model, coaching and mentoring daily with their knowledge the new searcher generation. Similar to the start-up incubators, yet, the search funders share the ad hoc infrastructures, everyone working on their own journey towards the entrepreneurship through acquisition. All the network of broker, interns, lenders, mentors, if not already in place, is build and handle by the incubator without disturbing the searcher's operations. An extremely valuable resource is the data collected throughout the different searches over time, that might be useful for the future funds. The most sensitive topic for incubated search funds are the tiny line dividing collaboration and competition: if on one side the searchers can share best practices, processes, resources and support each other along the way, on the other hand, they may compete since they are working hard for the same goal: buy a target. Perhaps, although would be tough, they might look for a target in the same industry and geographical scope.

c) *Self-funded*: a self-funded search is aimed to avoid the step-up multiplier on the search capital provided by the investors pool, usually at 1.5x and relieves pressure on the searcher on keep updated the investors. In fact, in a self-funded search the principal commits his/her own savings into the fund to cover the search phase expenses. This method allows a lower cost of capital avoiding the transformation of search investors capital into preferred equity with his embedded preferred return, and a higher equity stake for the searcher. On the downsides the searcher risks his/her own savings and the absence of guidance due to the lack of an investors base experiences might slow down all the process, reducing the odds of acquire a target and overcome hurdles.

d) *Crowdfunded*: in this development of the search fund model, the search and acquisition capital are raised through a crowdfunding online platform. Instead of reaching out investor proactively, in this way a searcher has to market his/her investment memorandum and connect on one side searchers looking for capital and investors seeking for an exposure on this asset class. Once an investor commits capital he/she gets a preferred equity like the traditional search fund does, or in the form of convertible debt.

	Searcher Autonomy	Infrastructure	Investor Base	Mentorship	Potential Equity for Searcher (Solo)(1)
Traditional Search Fund	• Medium: monthly reporting to disparate investor base; no committed capital; some terms pre-negotiated	• Low: searcher must setup infrastructure individually; limited admin support, if any	• 10-20 investors, each with their own right of first refusal to fund transaction	• Medium: depends on availability of investors; frequency of interaction usually up to the searcher	• 25%
Sponsored Search	• Medium: monthly reporting to in-house investor base; committed capital	• High: office space, IT, admin support, HR and broker/lender relationships in place	• One committed fund; decisions made by investment committee	• Medium-to-high: daily interaction with investor base; incentives aligned; depends on sponsor	• 20 – 30%
Incubated Search	• Medium: monthly reporting to in-house investor base; committed capital	• High: office space, IT, admin support, HR and broker/lender relationships in place	• One committed fund; decisions made by investment committee	• High: daily interaction with investor base with relevant experience; designed to mentor searchers	• 25%
Self-Funded Search	• High: no outside time limits, reporting requirements, or investment mandates	• Low: searcher must setup infrastructure individually; limited admin support, if any	• No pre-determined agreement; terms dependent upon attractiveness and demand	• Low-to-Medium: depends on personal network of searcher; no search capital as incentive to investors	• 30 – 100%
Crowdfunded Search	• Low-to-Medium: reporting depends on investors; disparate investor base; no committed capital	• Low: searcher must setup infrastructure individually; limited admin support, if any	• Varies widely; too early for standard to be developed	• Low-to-Medium: depends on personal network of searcher	• 30 – 100%

(1) Value of % ownership is typically dependent on size and growth rate and ultimate performance of the acquired business.

1.4) Search Fund's Failure

As all the asset classes the Search Fund as well sees failures. Kessler and Ellis (2012) defined unsuccessful a search fund when after the acquisition of the target one of these circumstances happened:

- Business acquired by the fund declares bankruptcy;
- Business acquired returned to investors no capital or an amount below the original investment

- The searchers who set up the fund is released or resigned to lead the business acquired;

It is reasonable to define an unsuccessful fund also those who fail during the early stage of the model such as the search phase. In particular those who are unable to find and acquire a target as well as those who fail to complete the acquisition. Yet, when the target company is inappropriate to the investors, or it's too risky, it will be rejected causing a failure of the fund, or the acquisition capital is not enough to buy it. All of them are as well triggers of an unsuccessful search fund.

In this situation the search capital investors loose fully or partially the capital they committed during both the search and acquisition calls.

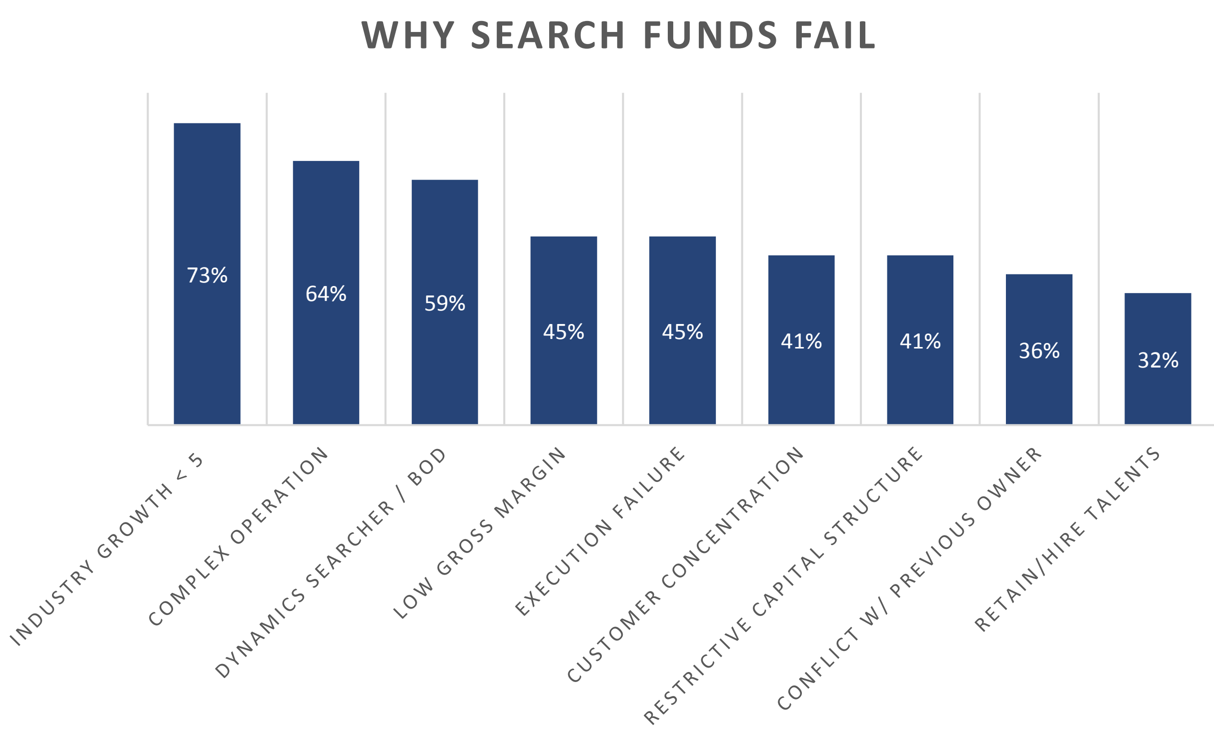
In the same study, Kessler and Ellis interviewed most of the searchers and investors involved at least in an unsuccessful search fund known at that time, identifying the main reasons way a search fund fails. However, there isn't a single answer and all the time is a combination of factors those who lead to a unproductive entrepreneurship through acquisition.

The main problem faced by the unsuccessful searcher has been the low industry growth, meant as a 5% or below growth rate at the time of the acquisition. This level of growth was explained through exogenous factors and obsolescence of the products, partially related then to the business itself. The second reason is the complexity of the operation embedded in every business. The drivers in this case are both the more complexity than expected by the searcher and the lack of skills/competences and experience of the searcher to manage a company in specific industries. In particular retail, manufacturing, highly skilled services and those with considerable geographic distances between sites. Another important factor is the relationship between the CEO and the Board of Directors where both parties blame each other for some reasons depict below[9].

Searcher Issues	Board Issues
• Failure to be fully transparent about current operations and/or future strategy	• Inadequate operating experience to make helpful recommendations
• Failure to deliver board materials and/or financials in a timely manner	• Inadequate time allocated to searcher and/or acquisition
• Request for non-market salary and/or equity ownership	• Collusion with other board members that prevent independent advice
• Inability or lack of interest in learning operations and/or managing people	• Unmentioned relationships with lenders chosen for acquisition
• Inability to request, listen to, and/or implement suggestions from board	• Lack of confidence in searcher because of previous interactions and/or decisions

[9] Kessler, Benjamin, and Jim Ellis. "Search Funds: Death and AfterLife.", Stanford Graduate School of Business, 2012

The fourth reason expressed has been the low gross margin of the target, below the industry median. It shown that the products or services were undifferentiable while the competition won on prices. The execution of a successful strategy is a failure driver since the searchers haven't been able to learn and deliver the operation of the business due to a lack of time, wrong prioritization or weak experience. Customer concentration represent a hurdle to a search fund especially when a customer accounts for more than 25% of the total revenues. In this case, the chances to get in trouble raise as the firm relies on a few revenues streams and a customer's problem becomes a search fund's problem. The same reasons might be applied on a market where the company is expose on. Managing the free cash flows to repay mostly the debts lead to a solvency and illiquidity problems shifting the flow of resources from the core operations. Therefore, the capital structure of the acquired business is extremely relevant to avoid excessive leverage and absorption of cash, harmful for the business operations and investments. Among the causes, the negative impact of the previous owner leading to conflicts with the searcher, employees and the Board after the sale of the business let to unsuccessful search fund acquisitions. In particular, too pressure of the owner towards the repayment of his/her debts like the seller notes; fraudulent documentations, disclosed only later; and stealing customers after the sale, have been the main reasons that triggered conflicts. Lastly, the inability to retain or hire talented middle management people shift the focus of the searcher from the development strategy of the business to more frontline and technical operation, where the searcher at the beginning of the acquisition, by definition, lacks experience and capabilities.



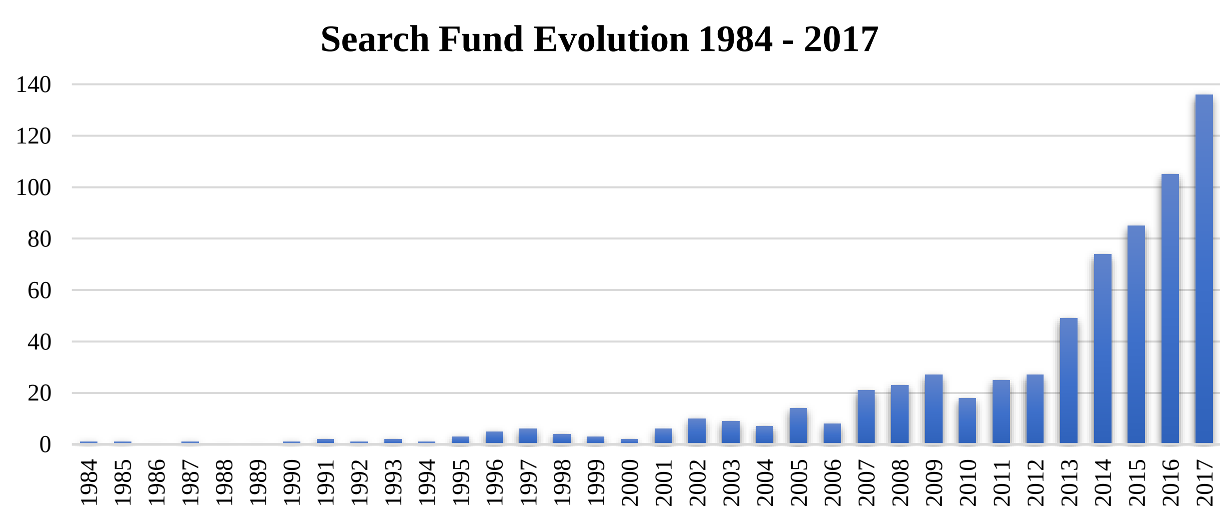
2) Search Fund Model: A Worldwide Outlook

As seen, at least theoretically, the search fund model seems to be a great combination of demand and offer. On one side there are young talented inexperienced individuals aspiring to become entrepreneurs with no or few cash to acquire a business; on another side there are investors looking for alternative profitable investments in order to diversify their portfolios; an on the third side there are owners willing to step back from the day to day entrepreneur job, seeking for a succession of the business or simply some liquidity. On paper then, the model match perfectly the offers and demands of all the parties, having a talented individual gluing fresh capital from investors and performing business from owners. For that reasons it's interesting to have a consideration on how the model developed during his lifetime understanding the drivers, the hurdles, and which other evolutions happened.

According to Searchfunder.com there are 787[10] search funds[11] raised all over the world since 1983, when the first search fund, Nova Capital, was born in the USA by Jim Southern. Based on the same data base, at least 80% of all search funds are operating in the USA and Canada, 10% in Europe and the remaining 10% around the world with the chunk of that in Mexico. Most of them are still searching for a target, some of them acquired and are running the business or exited successfully. Others deviated from the model or have been shut down the fund because they didn't find a target or the acquired went bankrupt. For more than 20 years the model has been applied only in the US, among the students of few prestigious universities like Stanford Graduate School of Business, first, where the model was born, and then Harvard Business School later. It was in 1992 that Simon Webster exported the model in the UK and for the first time a search fund overcame the US border. It took several times then to see another search fund established in Europe (1998, again in UK) while other countries like Mexico, Latin America and Asia experienced the new asset class later in the 2000. The big chunk of the searchers are MBAs graduates from the most prestigious universities, based mostly in the USA, where the model was continuously taught within entrepreneurship modules, and then returned back in their home countries. Meanwhile, Nova Capital acquired a printing business and other search funds have been raised in the US followed by other acquisitions. The model gained his recognition and particularly appeal after the first exit that occurred in 1994 when Nova Capital sold the printing company. It was extremely important because for the first time the business community could see the real outcome, and therefore the

[10] Crowdsourced data from www.searchfunder.com as of May 15, 2018
[11] Includes all kinds of search funds and not only first-time traditional search funds

potential, of the search fund model. The result in that particular case has been remarkable, with the investors obtaining a return on the investment (ROI) of 24.0x. This return and other successful exits on the first half of the 90's helped the entrepreneurship through acquisition path to marketing itself, creating excitement around the professors and transmitted to the MBA's students. These returns amazed also the investors community since the IRR have been much higher compare to other similar asset class within the alternative equity investment panorama. The acknowledge of these results, then, leads to the first peak of new funds formed that started in the following years as it's showed in the chart below[12]. With the awareness gained among the scholars and the students, however, the pace of new fund outstripped the number of investors available to commit capital on this asset class. In fact, a small group of investors (15, 20 individuals), accounted for almost all the capital invested in the first 15years of the model in the US but also internationally. They are extremely valuable because of their proven experience in supporting other search funds besides the fact that they are professionals in running businesses and for their huge network and liquidity to invest. A second peak of new searchers occurred at the beginning of the 20th century (2000-2005) where have been set up more than all the funds raised in the 15 years before. As long as the search fund market grows and matures, more acquisition and therefore exits occurred confirming year after year the success of the asset class. It creates a virtuous circle where the searchers after having learnt the model and put it in practice, they give back to the community what they have experienced sharing pros and cons, stimulating others to take the same path. Search funds' investors as well spread the voice of the returns they have got not only financially, but also personally, coaching the searcher to be entrepreneurs. The following years, especially after the global financial crisis, have seen a high quantity of new search funds but it is after 2010 that they started literally booming.

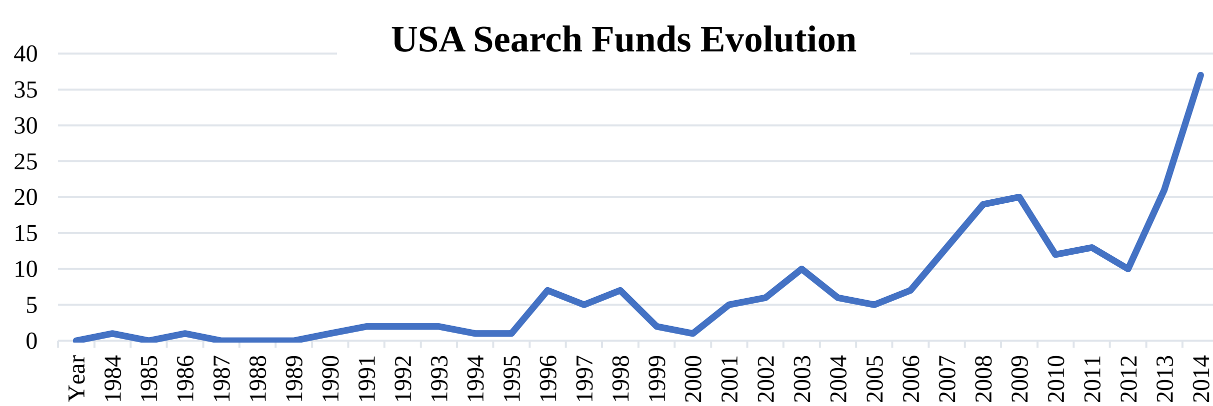


[12] Crowdsourced data from www.searchfunder.com as of May 15, 2018

According to Stanford GSB and IESE Business School more than 300 first time traditional search funds have been raised worldwide since 1983, where over 100 only between 2014 and 2015. Waiting the release of the 2018 Search Fund Study with the 2016 and 2017 data, according to Searchfunder.com there are respectively 105 and 136 new search funds in the world where the American funds count for three fourth or the total. As seen the number continued to growth and it's expected to growth even more in the coming years since the model is getting popular and popular and more new countries get involved. Throughout the years the traditional model has been perfectioned becoming a standardized entity in his legal terms and ways of working. In US and even in UK lawyers provide a standardized set of documents search funds-related. However, as discussed at the end of the first chapter, variations of the model are being developed along with the increasing number of different individuals and their goals. New searchers that start this career path are adjusting and modifying the traditional structure to those who fit best their needs and experiences. For example, older searchers had approach the model seeking bigger opportunities in terms of size or sought distressed situation, both due to the different experiences they had in their longer professional careers. Someone else self-funded the search phase for many different reasons creating a new search fund model. In recent years some searcher partnered in a fund with the aim to replicate several times the principles of the model, acquiring more than a target in a longer timeframe, founding each time for the acquisition capital but using all the information collected during the search phase. Ad hoc annual conferences take place every year in different parties of the globe, and more and more Business School are teaching the model. Some of them dedicated an entire module for the search fund asset class and are pushing for a specific type of search fund rather than others. Local investors are getting familiar with the model and their duties to the searchers, trusting them and committing more money, enlarging the so call "serial investors base", those who already experienced at least once this investment. Past searchers who exited their targets, thanks to their paychecks, set up special fund in charge of supporting financially and professionally exclusively other search funds: a well-known fund of search fund is Pacific Lake Partners for example. Yet, search fund accelerators have been invented to help and boost searchers to find their targets. It provides offices and infrastructure to the searchers as well as the search capital, partially or fully. Recently, search funders are better prepared thanks to the dedicated classes and the share of knowledge from past entrepreneurs and investors. The latter are increasing, getting familiar with the model, investing and coaching even more than before. The pool of target is increasing as well since the baby-boomers generation is becoming older and next to retire. For all these reasons the search fund model is having momentum leading the asset class to growth, yet, in the next years.

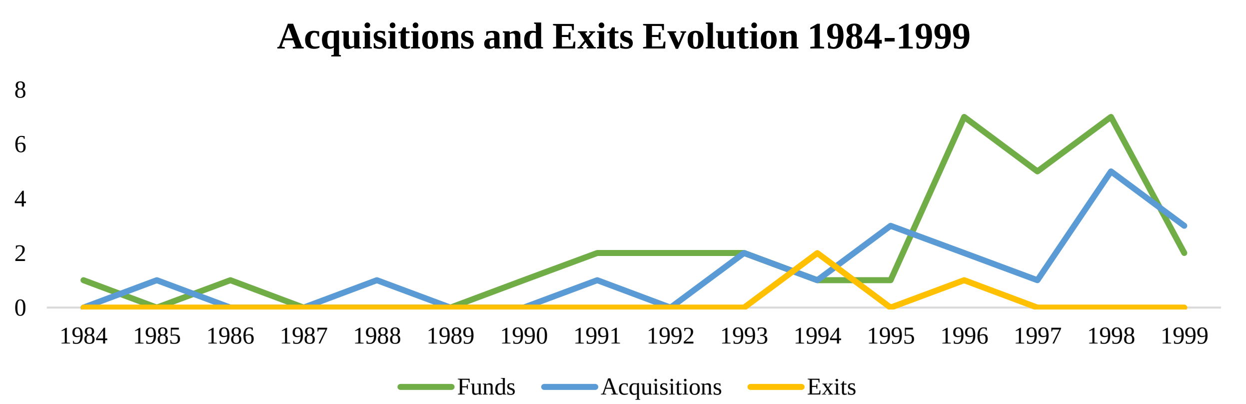
2.1) Overview on the North America Search Funds

As said at the beginning, a Harvard Business School's professor has developed the search fund model, H. I. Grousbeck. Later, Grousbeck became the director of the Center of Economic Studies (CES) at Stanford Graduate School of Business and since 1996 the CES is publishing a report on search funds every two years. In particular, this report is focused on the American and Canadian first time traditional search funds. This means that only new search funds, ran by new searchers are take into consideration. Past searchers that set up a new fund, after an exit for example, are not considered. Are excluded all different kinds of search fund as well that deviate from the traditional model, like the self-funded search fund or sponsored fund. The aim of these restrictions is that the CES wants to track only the genuine search fund as it was defined back in 1983. Searchers shouldn't know already how to play the game, while a searcher in his/her second funds knows already how to fundraise, search, acquire and operate a business. To some extent it's a learning-by-doing process. Deviations from the traditional model are not track because would mislead the comparison between search funds samples; for example, a self-funded search miss everything related to the fundraising phase, mainly building a relation with the investors. Besides that, deviations are evolutions of the model occurred only subsequently and therefore, as said before, the CES is tracking only the traditional one. With these rules, the CES published his last report on June 2016 with an update of the search fund records until the 31st of December 2015. Thanks to the report, made out of surveys, it can be inferred a huge amount of information ranging from the demographics of the searchers, the statistics of the different phases, and the aggregate return to the investors and even more important the evolution of these variables throughout the years. The entrepreneurship through acquisition model has his roots thanks to professor I. Grousbeck who putted together all the characteristics today known. Since 1983 in North America, mainly US, 258 first time search funds have been formed as shown in the chart below.[13]



[13] Search Funds – 2013 selected observations. Stanford Graduate School of Business No. E-605, 2016

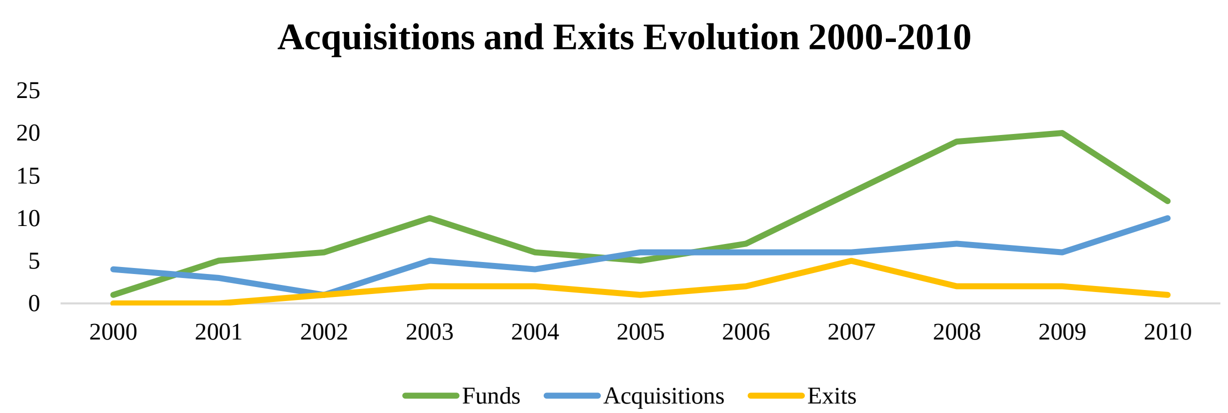
The trends are very similar to those discussed in the previous paragraph since the bulk of the new funds is allocated in the US. With the first fund in 1984, other searcher started this career but only a shy group of students did it mainly due to the restrict network of people that could get in touch with the basics of the model, limited basically to the students of the professor. Jim Southern has been the first searcher that acquired a printing company after one year of search. In 1995 the second search fund was implemented by a couple of friends that acquired a company after two years. And the third search fund has been raised in 1989 after the founder wrote a case study on the model. The professor has been himself investor in the first search fund with other individual investors, all of them, almost, coming from his network. The model started to gain credibility only after the pioneer fund exited successfully his acquisition and the business community understood its real potential. As well, the other search funds acquired, managed and exited successfully their investments, contributing in the advertisement of the model. This phenomenon is well described and explain in the chart where there is a peak in new search fund after the 1994, year of the exit. Up to the mid-90' an average of one or two search funds per year were set up. The second half of the 90' showed an increase to 5 funds per year. By the end of the 20th century 34 search funds were formed, 20 made an acquisition and three successful exits occurred.



Former searcher who enjoyed the model and were successful started set up their second and third fund, along with investing in other search funds. As soon as the knowledge of the model, the high return financially and non-financially related, other students became curious and other investors were willing to commit capital in the search and acquisition phase of new funds. Stanford started to track the funds as the number was increasing and hosting panels to share the past successful experience and spread the awareness of the model. One of the first panel took place at Stanford in 1999 with 4 MBA graduates that were running a fund and a search fund sponsor investor. All of them shared they experience in all the phases they faced, from the difficulties to collect the initial capital with investors or the reason why they should invest, till the more technical question on how to structure an acquisition. All these facts and activities, laid the foundation that enables the model to be understood, shared, used, and allowed him to grow in the USA and not only.

The second important period of the search fund model in North America goes from the beginning of the new millennium and it lasted for one decade, coinciding with the Dotcom bubble. From the charts is easily recognizable the drop of the new search funds raised in 1999 and the first years or the 2000 due as it is guessable from the fear felt by the investments community in those years. However, despite the bust of the bubble, in this period more than one hundred funds have been formed and 75 new acquisitions took place. These numbers are impressive since are more than triplicating the results of the previous period. As explained, the role of institutions like Stanford, Harvard, or active community of interest in spreading the knowledge of the model throughout classes, researches, conferences gave enough popularity to the model and allowed the latter to grew dramatically. In fact, more and more people were just aware that the search funds exist, and the curiosity was transformed in excitement when the new outcomes confirmed what seen during the '90s, above average return for both investors and searchers. The most successful exit occurred in the whole history of the model has been Asurion. Bought in 1995, K. Taweel and J. Ellis ran the company for more that 20years, reshaping the business model, riding the wave of the new technology of Internet. In 2007 the sold the business to a pool of three private equity firms for $4.1 billion yielding a return to investors above 100x setting the record for the new asset class.

In this period, the funds that acquired a target in the second half of the '90s now are reaching the end of the holding period and started to cash in the investments. Nearly 20 exits occurred in a decade with a peak in 2007 with 5exits.



Again, the model showed appealing high returns, remarking the success obtained by the investment vehicle. The proliferation of great stories shared and spread around the Nation permitted the industry to growth and yielding even more credibility.

The key driver to this achievement have been:

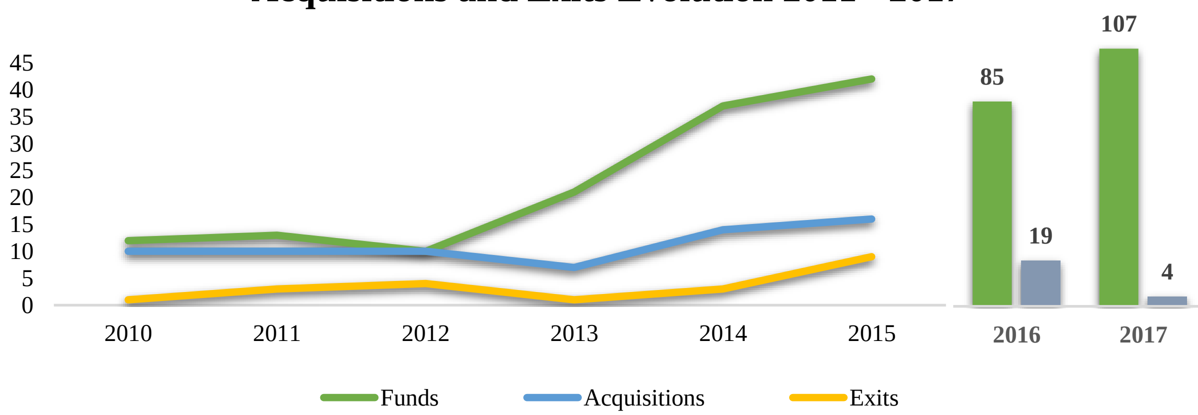
- Information and records of the search fund started to be tracked:
  Search Fund Selected Observation, a quantitative and qualitative research study where put in place by some scholars at Stanford that analyze and track since 2001 all search fund metrics, information sourced directly from the principals throughout surveys and interviews. The papers include a brief explanation of the model followed by information on the demographics of the searchers, performances' insights, industry trends, returns. Most important thing, the report is available to the public, ready to be downloaded and completely free. Back then, in 2001, and still worth today, the statement educated the public on how the model works, the characteristics and the result obtained. It represents a fascinating story of high returns investors and a faster entrepreneurial path for young MBAs students to become CEOs. Yet, for the first time a respectful institution like Stanford admitting that a concept conceived in 1983 and spread thanks via examples and hearsay received authority becoming a real alternative investment, an asset class.

- New form of search fund investments and the standardization of the model:
  The credibility of the model stimulated also the demand in terms of both waking up financial capital and entrepreneurial risk. The increasing number of investor interested in this new remunerative asset kicked off the formation of special investment funds, aimed only to provide financing to search funds. These institutional investment funds are composed by past searchers and/or investors who trusted already in the model, or even private equity firms in an attempt to diversify their portfolios. Institutional investors thanks to the deeper-pocket they can trust on became easily the major source of capital invested in the search fund market. Alongside with the increasing number of investors but the explosion of new searchers, the entire search fund process started to become more and more standardized. Indeed, only a small group of investors knew perfectly first the model, second how the search fund works and third could bring real value through coaching the searcher along the different phases. They had then the negotiation power to set specific standards related to terms and conditions between searchers and investors. A template has been put in place and the details of the agreements where no longer discussed. For the traditional search fund community this is still the way of working today.

- The model expanded his awareness beyond Stanford and Harvard:
  Presumably thanks to the public information shared by Stanford, visiting professors, the world of mouth, and other channel in this period the model started to be embraced by other MBAs students coming from different University beyond Stanford and Harvard. Until that time, they were the only Schools where the model has been supported and therefore available. The results, in fact, made publicity to the model and gained awareness among other prestigious Colleges and the first examples is the partnered search fund, Headland Partners, made by D. Sellers and B. Godsey a Kellogg and Booth fellows respectively in 2003. Two years later they bought a Hawaii's company and exited successfully with an investor return of about 11x in 2013.

The third and last period, so far, goes from the 2010 until our days and it's the period where the model is booming. After the Great Financial Crisis that harmed all the World slowing down the number of investments in search funds and new searchers, the model got traction and it is experiencing his highest momentum in his lifetime with a terrific growth. From 2010 more than 3 hundred search funds have been set up and 165 operations have been made between acquisitions and exits[14]. This means that have been raise more search fund in the last 5 years than the cumulative previous 30 years of search fund's history.

Acquisitions and Exits Evolution 2011 - 2017



The dramatic growth is accompanied with a further evolution of the model leading the entrepreneurship through acquisition to be a valid alternative investment. Investors' portfolios are enlarging and enriching of new search funds' investments as never before. Business schools, now

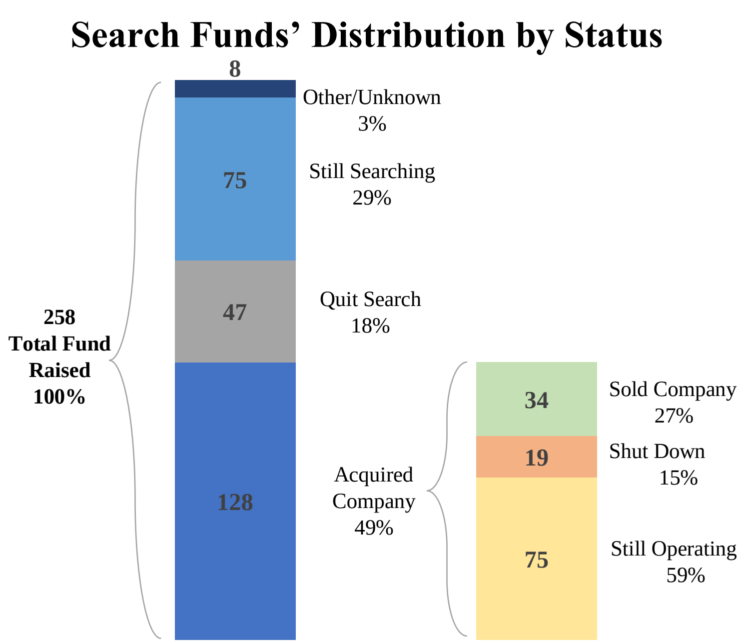
[14] According to Stanford, in the period 2011-2015 the new traditional search funds accounted for 123, with 57 acquisitions and 20 exits. For the years 2016 – May 2018, Searchfunder.com tracked in total 208 search fund set up, including second funds and non-traditional ones: 85 in 2016, 107 in 2017 and 16 in 2018. The acquisitions have been 23 while there is no data on the exits occurred.

even more aware of the model year after year, are teaching the search fund model in class incorporating the topic in their curricula, student associations are growing and are hosting conferences and events. In particular, now business schools are creating the environment to discus and experience the search fund in-site and are pushing their studies, therefore students, towards specific kind of models. For example, Stanford is boosting the traditional search fund while Harvard is backing the self-funded one. Even search fund's institutional investors are marketing themselves going into the business school to catch first year MBAs students, attracting them with remarkable speeches and offering internships among their portfolio of funds.

All these activities are heading towards some consequences. Among the most important ones, it's leading to a bigger awareness among the MBAs students into the model, knowing his existence and the basic concept. Not only students, but also a larger community ranging from the individual investors, institutional investors, business schools and business owners. Yet, much more students now see the entrepreneurship through acquisition as an effective career path to consider.

2.2) Statistics on the Search Fund in North America

As anticipated before, the last years have been the busiest for searchers and investors. In the 2016 Stanford Search Fund Study identified 258 first-time search funds that have been formed since the '80s. The authors since the beginning decided to exclude deviations from the traditional model due to a better comparison between studies, performed every two years, and experienced searchers because they have different track records, management and operational capabilities and they have already an established network. Since 2007 more than 10 funds per year were set up reaching the peak record in 2016 with 43 new funds and 16 acquisitions. As of December 2015, of the 258 search funds tracked, 29% searchers were still looking for a target to buy, 47 ended up with no acquisition and 8 are either still unknown or deviated from the model, in the sense that after a short research



for a target they used the initial capital to set up a start-up, for example.

Instead, 128 funds acquired successfully a target. Within those companies 75 were still managed, while 19 lost capital and 34 exits had a positive return leading to a profit.

2.2.1) Principals Profiles

As the search fund model was thought and taught, the profile of a searcher should be a young and talented individual. In fact, the 2016 Search Funds Study shows how the average age of start a fund have been always close to 31, and 73% of the new searchers were under 36 years old. Yet, 50% of the new principal have graduated in an MBA within a year and only 25% did not take an MBA at all. This data is important because the trend in the past editions of the Study shown an increase of individuals with no-MBA starting a search fund, whereas among those did an MBA the trend of people starting within a year after the graduation shows an "U" shape where before the Great Crisis it was decreasing and now going up again. In all the studies the female gender is not present or just in a few cases. Less than 2% of the overall search funds set up is run by a woman. There isn't a standard background of the searcher; since most of them stared a search after at least 4 years of experience the related job experiences are wide and diversified. The four most represented backgrounds are those tied to a private equity, investment banking, line manager or management consulting jobs. And a single searcher can also have experienced more than one along his/her career. It's interesting to note that at the beginning of the Study, most of the new searcher were coming from the common career that an individual is likely to do in the US, management consulting and investment banking specifically. Before the Dotcom bubble they accounted for more than 50% of the overall searcher, while now these backgrounds are less than a half. Line manager experience is present with a 12% even though it got a checkered trend across the years, while private equity fellows exploded right after the Great Crisis. In fact, until 2008/2009 they counted for a single digit

Professional Backgrounds	Pre-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015
Managemet Consulting	26%	23%	10%	26%	7%	14%	16%	11%
Investment Banking/Finance	23%	10%	16%	27%	20%	11%	22%	11%
Prvate Equity	1%	5%	11%	4%	27%	28%	31%	27%
Venture Capital	8%	3%	5%	1%	0%	0%	2%	0%
Line/General Management	5%	27%	7%	15%	11%	19%	2%	12%
Operations	4%	7%	16%	1%	7%	8%	7%	5%
Entrepreneur	2%	13%	8%	7%	13%	6%	4%	3%
Military	2%	1%	8%	1%	0%	0%	2%	9%
Sales	12%	1%	3%	7%	4%	6%	4%	6%
Others	17%	10%	16%	11%	11%	8%	10%	16%

in the whole searcher's backgrounds panorama however, suddenly, just after the Financial Crisis it bounced to almost one-third of the cohort, being the most common experience before starting a search fund, constantly every year.

2.2.2) Fundraising and Search

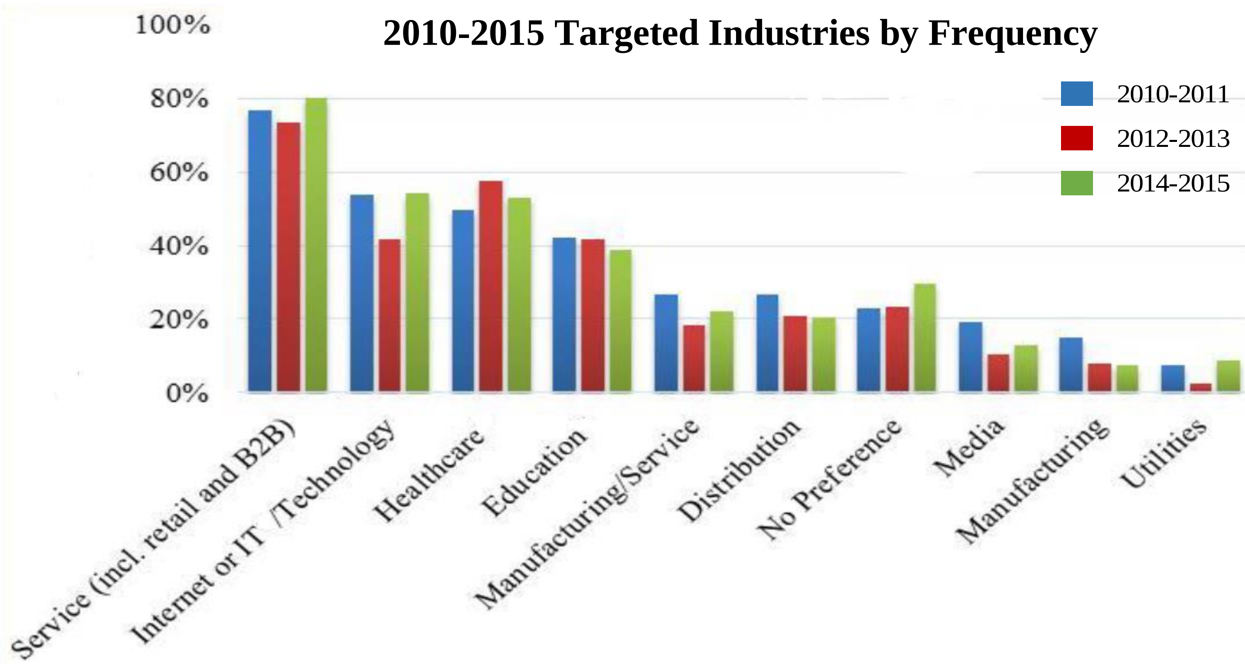
In the formation of a search fund, searchers are called to decide whether having a partner or not. In the latest Study more than 70% of the searcher preferred a solo venture rather than a partnership, chosen in 3cases over 10. Throughout the years there isn't a clear trend in this specific characteristic, however the data show a fluctuant series on the choice. Despite that, partnered search fund statistically shows better result in term of both buy a company and exit the latter successfully with better results. Data depicts that partnership are more likely to find and acquire a target and although there is almost a split in the numbers of funds that acquired a target, the average financial figures look better for partnerships. Within solo ventures 40% of them achieved returns greater than 2x, and 32% incurred in a total or partial loss. 60% of the partnerships instead achieved returns above 2x and only 21% face a loss or partial loss of capital. Even in terms of ROI single searchers have lower return, on average 2.8x compare to 4.2x of the partnerships[15].

Independently on the form of the search fund, on average the fundraising process can take from 1 month up to 8 months, with an average on the latest Study of 3 months. In the US is a very straight forward standardize process and thanks to the evolution of the model especially in the last 10 years the median number of months decreased. With the birth of dedicated funds that invest only in search funds, and since investors are more aware of his features and rewards, collect capitals in the US looks not too difficult. If in one side the time to fundraise a search is getting shorter, on the other hand the amount of capital and the number of investors are decreasing passing from an average of $450.000 in 2009 to a $420.000 in 2015, and from 18 investors in 2010 to 15.5 in 2015. However, the amount gathered by searcher is increasing year after year reaching almost $390.000, meaning that proportionally partnerships are collecting less capital compare to a solo venture.

Searchers, at the beginning of their journey, have to present at least three industries in the Private Place Memorandum (PPM) where they want to focus on during the search phase. Even though these industries are not binding the searcher to focus only on those ones, it's one of the first

[15] Despite the statistics, the decision to form a solo or a partnership search fund is personal and depends on many other factors. Due to the limited sample is not possible to infer that partnership are consistency better in acquire and achieve higher returns.

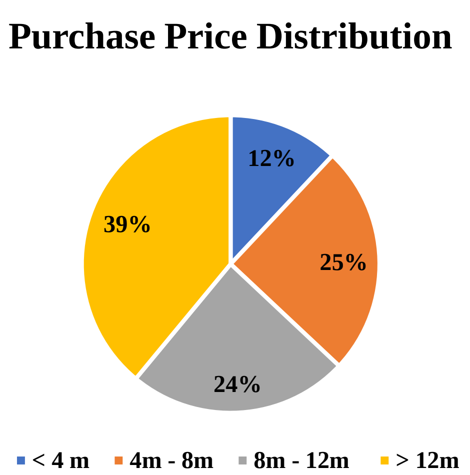
information used by the investors to decide if investing on the project or not and sometimes they are crucial to get the attention and the commitment of them. The most targeted industries are those related to the business services, followed by technology, healthcare, and education.



Technology then, have been broken down showing where within the industry, searchers are more focus on. The surveys reveal that 90% of the time "software" has been indicated as targeted industry, with internet 60% and E-commerce 28%.

2.2.3) Acquisition

Defined the industries and applying all the criteria explained in the first chapter, searchers engaged in a critical process that will craft their future, seeking and buying a target. Throughout the last years the number of months dedicated to the search phase, from the creation of a deal flow until the signature on the purchase agreement, have decreased. Even though the whole acquisition average length of search is 19 months, the 2016 Study shows how searcher have been able to close the whole transaction in 17 months. It's interesting to note also that only 10% of the all acquisitions have been done in less than one year, while the chunk of he deals drop in the 12-20months range, 44%. Anecdotally, the number of companies reviewed has significantly increased in the last three editions of the surveys. In fact, the acquisition funnel tells us that searchers identified a bigger number of opportunities, while, in the next step, they commit in fewer Letter of Intent. Searchers said they reviewed more than 500 or even 1 thousand potential acquisition targets whereas they were close to 300 a decade before. After the initial screening they approached a mean of 25 companies and entered in a LOI with 2. Out of this two the searchers went forward in a comprehensive due diligence with only one firm, the one they acquired later. In the previous Studies there were a larger flow of companies both approached, committed in a LOI and audited via a deep due diligence. One of the most reasonable motivations is the fact that searchers in the US are using more the business brokers and investment banks to source deals, although the proprietary approach remains the major one. Inevitably, using brokers, the number of companies reviewed increased while after the screening process a lower number of firms will be approached for further investigation and interest. Another fact is that the companies approached, and acquired, are larger, growing faster and with better EBITDA margins compare to those acquired in the past surveys. Is important to note that historically 27% of all the search funds did not successfully find and therefore acquired a company, excluding those who deviated from the model. Among those who successfully found and acquired instead, the distribution of the purchase price paid shows how the chunk of the deals falls into the range above $12 million, one fourth for the ranges from 4 to 8 and from 8 to 12 respectively, while a smaller number of deals have been completed below $4m.

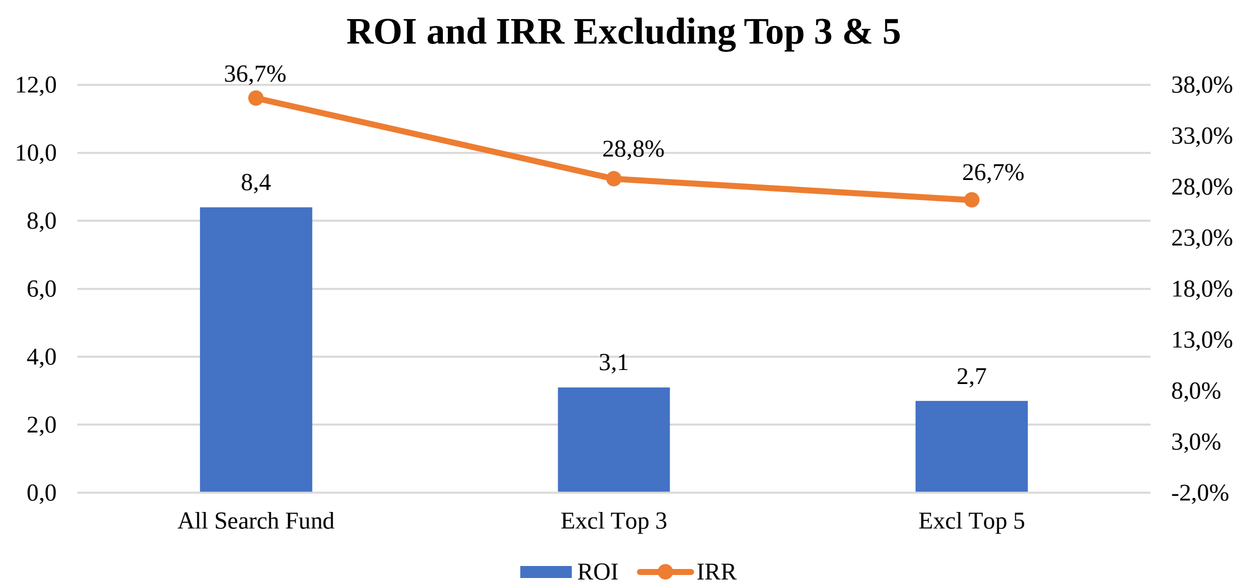


The biggest acquisition ever made via a search fund has been done in 2011 and set at $71m with the second one at $37.5m. The average financials related to the acquisitions show a constant increase in purchase price, sales and EBITDA at acquisition since 2008, translated in a higher EBITDA multiple as well. On average, the purchase price almost doubled from a $6.5m in 2008/2009; the revenues of the targets at the purchase passed from a 5 million to 7m with an EBITDA of $2.5m (it was 1.3 in 2008/2009 Study). The increase in purchase price is reflected also into the EBITDA multiple used to calculate the price, heading to 6 times. If we take into account all the search funds acquisitions made the median price paid is $9.5m, with sales at $7.1m and EBITDA at $1.8m. The EBITDA margins is set at 22.9% with a growth of about 12%. In terms of multiples, the sales multiple is 1.3x and the EBITDA one is 5.3x. On average, the median number of the company's employees is 45.

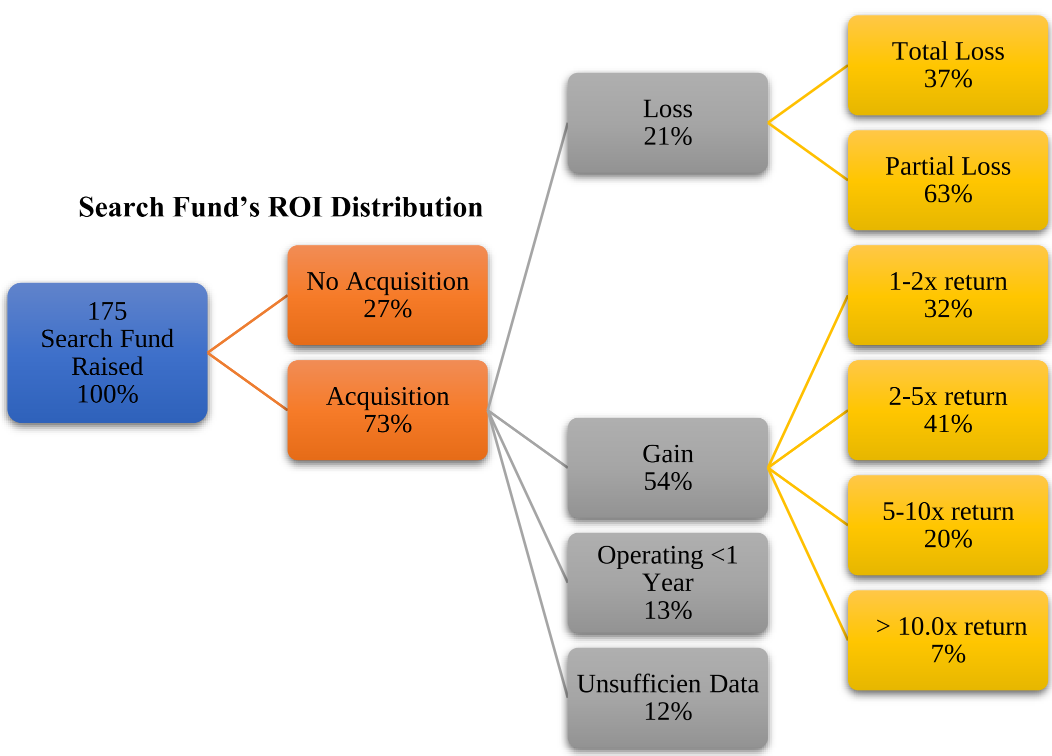
2.2.4) Returns

One of the most powerful strengths that the search fund model can show off, is the returns it offers as an asset class. Is thanks to these returns collected throughout the years that it gained credibility, notability, and became a real investment rather than a simple school concept. There are two main methods to calculate the returns achieved by the search funds on the initial capital invested, meant as the sum of search and acquisition capital. One is the Return on Investment, ROI, and it represents the multiplier of the initial capital invested, returned to the investors. For example, assuming $3m of initial capital invested, a ROI of 4.5x means that the capital returned to investors amount to $3m x 4.5 that's equal to $13.5m; instead, a complete loss of the capital invested means a ROI of 0.0x. The other measure is the Internal Rate of Return, IRR, calculated as the compounding rate derived from the actuals search and acquisition capital invested and returned by the investments. It's the discounted rate that equals the amount invested with the cash flows returned in a given time period. In the Stanford Study, for consistency, both measures were calculated on a cash flow basis including both equity and debt invested, assuming that the investment were committed at the same starting date, and on a pre-tax basis. The sample include the unsuccessful search funds, operating searchers and exited companies.

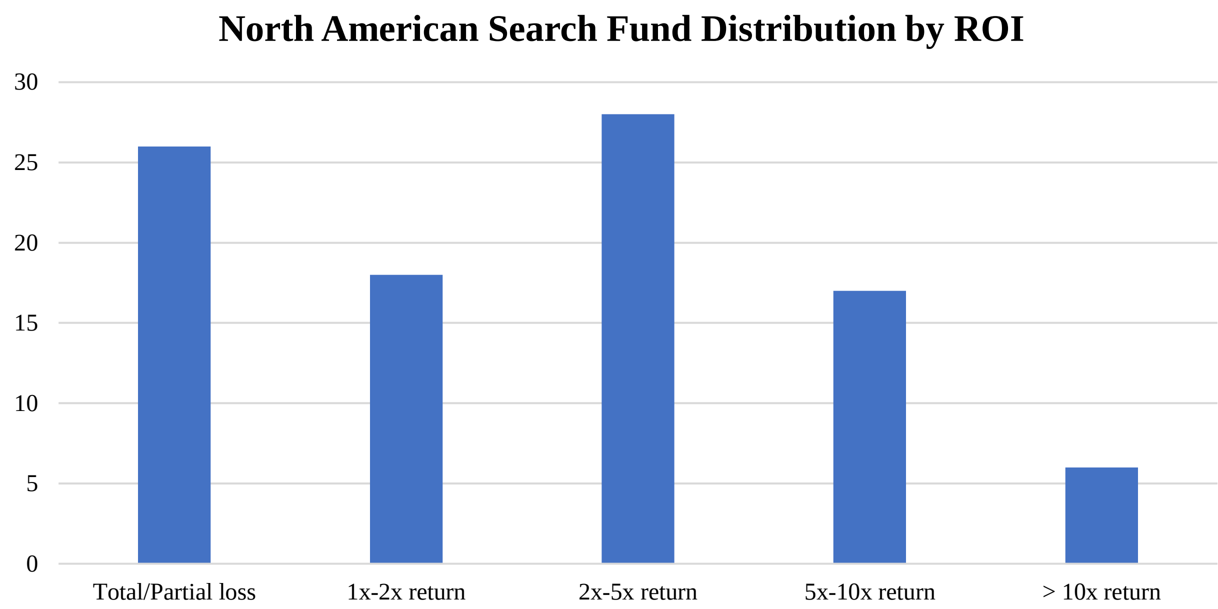
As of December 2015, the Stanford Study collected 175 funds in the US and Canada eligible to being included in the calculation of the returns among those who acquired or shut down the fund. Within this sample 33 funds were excluded due to insufficient data or the searcher operates the acquisition for less than one year. 142 funds then populate the calculation of the aggregate ROI and IRR: 47 funds have been unsuccessful and didn't acquired a company, 95 completed the acquisition. Of the 95 who acquired a company 45 were still operating and their enterprise value was a market value estimation of the searcher. On the other way around, for the 53 company who exited already at that time the calculation of the enterprise value has been straightforward using the document of the sale. The search fund model as an asset class returned, so far, an aggregate ROI of 8.4x and an IRR of 36.7%, and if the unsuccessful searchers would be excluded, these figures are slightly better off. The median ROI is 1.0x while the top performing ones are above 200x and excluding, again, the unsuccessful funds the median ROI among those who acquired a company raise up to 2.3x. Since the beginning of tracking the performance records make by Stanford's, the IRR has fluctuated between 32% and 38%, with a peak in 2007 achieving 52%. As said before, there are some rare cases where the returns have been extremely high and those can affect the overall figures. Excluding the top three and top five exits ranked by ROI and IRR, the returns drop to 3.1x and 2.7x respectively for the ROI and to 28.8% and 26.7% as regard the IRR as shown in the first chart below. Yet, these results are aggregate figures and an individual search fund's performance can be different and wide. In the second graph below there is a clear breakdown by different range of ROI's returns in different stages of the firm. It's visible how the 21% of the search funds incurred a loss, partial or total, whereas 54% obtained a profit, mostly in the 2x-5x ROI range.



Calculating the two measures isolating the returns of the funds that are only still operating, the aggregate ROI stands at 1.9x and the IRR at 23.0%. If the same would be done for those funds who exited already their companies the Return on Investment will be 16.7x and the IRR 43.5%.



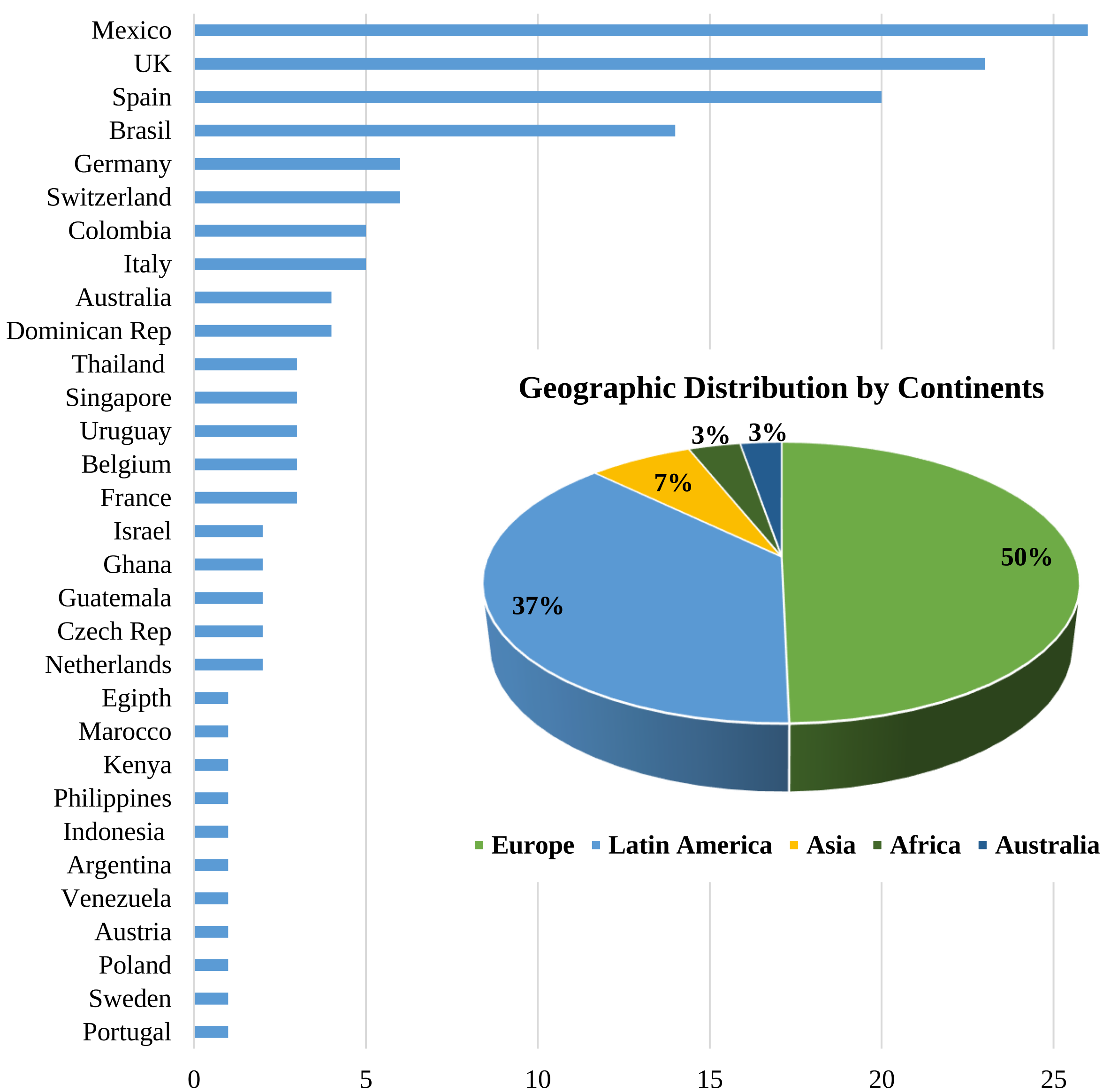
However, in the latter case, excluding the top three funds the financial figures would be 4.7x and 34.1%.



2.3) Overview on the International Search Funds

For many years the search fund has been an exclusivity of the US business environment. As discussed, at the beginning the model was a school concept and therefore known only by a restricted group of professors, students, and investors close to Stanford University. It took several years to see a search fund established outside the aforementioned network and a bit more to see the first search fund raised abroad. In fact, only in 1992, 8 years later the first one has been raised, Mr. Simon Webster formed a search fund in the United Kingdom called Ivy Partners. He heard about the model during his MBA studies at London Business School and after three years of search, Webster acquired a healthcare business in London for £3.5m with an EBITDA margin of about 11%. The year after in 1996 the second non-US based search fund has been formed in again in the UK and the third one followed right after in 1997. The pace of the new search funds outside the US has been quite and calm for a decade and a half where on average one fund per year has been formed and 6 acquisitions have been done. Starting from 2008 the model has gotten traction especially in UK and Mexico, the most active countries. On average in that period, until 2015, there have been almost 5 new funds per year formed worldwide. The most reasonable explanation is that international MBA students in US based top ranking University kept in touch with the model in class and after the graduation they came back to their home countries to undertake a search fund career path. Additionally, the results of the first exits might have encourage other to set up a search fund and spread his awareness across other countries. In fact, Webster exited his healthcare business after ten years enhancing and enlarging the business to a £30m sales with £2.4m EBITDA achieving a remarkable return to his investor and confirming the viability of the model also outside the US. According to Searchfunder.com there are in total 150 search funds since 1992 spread all over the world, mainly concentrated in Europe, 50%, and Latin America, 38% followed by Asia, Africa and Australia. Note that there isn't a search fund in China, yet. Looking closer to the geographic distribution of the search fund model worldwide[16], Mexico is the biggest country in term of number of fund set up, followed by the UK and immediately after Spain.

Geographic Distribution of International Search Fund



[16] Charts elaborated using data crowdsourced from Searchfunder.com as of May 15, 2018

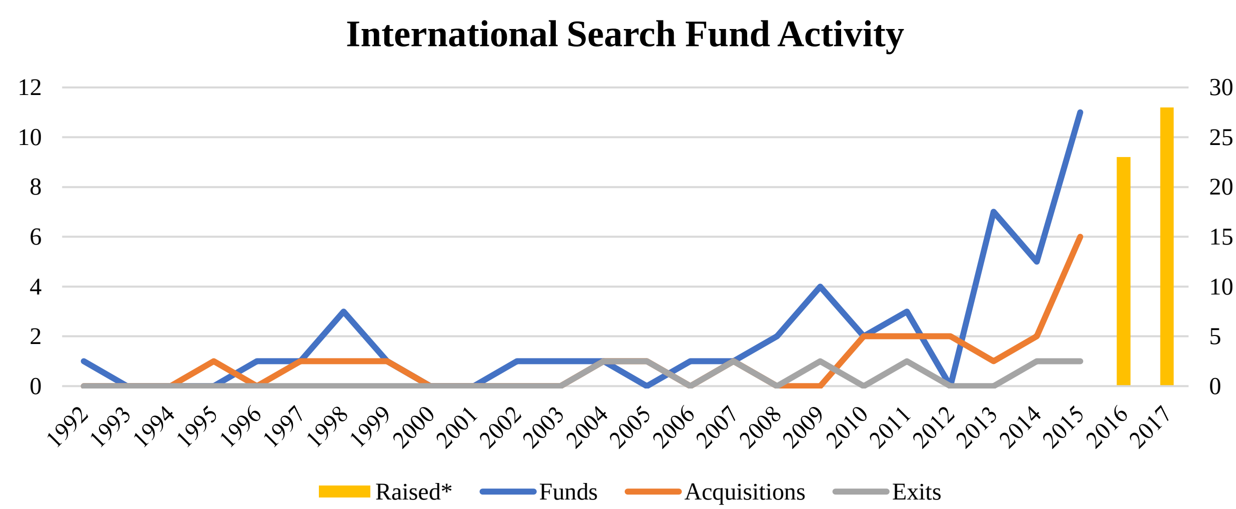
In an effort to understand the main reasons why these three countries are showing numerous search fund, accounting for the 46% of total international search funds, there is a *fil rouge* that links all of them, despite the specific and diverse possibilities of each country: the education provided by the universities.

Historically, UK has been the first non-US country to host a search fund, and this is due to the London Business School that taught and is still teaching the topic during its MBAs ‘courses. Yet, the common language, investments acumen and law rules, allowed British students to easily come back from a study abroad such as US and implement the same model in UK. Then, the results obtained by the first exits gave traction to the model inspiring others to follow the same path. For sure a top rank University that educates students into the entrepreneurship through acquisition is a huge boost to a concept that needs to receive authority and to be shared. All of these explanations put the foundation to a fertile ground where the model could growth and develop as it did, and wisely it will growth even more. Mexico, by definition one of the closest countries to the US, is enjoying the fact that many Mexicans students are attending Americans MBAs bringing back to the county all the knowledge they learnt and embracing also the entrepreneurship through acquisition path. Another reason is that a Spanish university, IESE Business School, is pushing its MBA students towards this career path, offering them a great network and several opportunities to get in touch with individuals engaged with the model, from listen past and actual searchers to panels of investors looking for investments. What is bonding this Spanish school and Mexico, but also all the Latin America countries are having benefits, is the common language, culture, that permit to a massive number of people access to a as much large network of target companies, investors diffused in different countries. In fact, IESE Business School in Spain, is intensively collaborating with Stanford to teach and promote the entrepreneurship through acquisition model. Yet, always in collaboration with the American business school, it is tracking the international search fund since 2011 following the guidelines of the Selected Observations sponsored by Stanford. Thanks to that, IESE is the main source of data and information for the international search fund and, after the Center of Economic Studies at Stanford, one of the main authors of this investment vehicle literature. Further, IESE is organizing annually a search funds conference at its third edition in 2017 where professors, searchers and serial investors throughout speeches offer to audience their experiences and their view about the pros and cons, the strengths, the future developments. These activities are extremely helpful to spread the awareness, allowing everyone interested or just curious about to getting closer and ask directly questions to those who are best suitable to answer thoroughly.

In all these three cases, the institutions have played and are playing a crucial role expanding the limits of knowledge of the search fund investments. Where the institutions don't play an active part to give the right insights and instruments to the students, thus the gluing part of the model, the entrepreneurship through acquisition doesn't growth and diffuse as it already did in other nations. However, is not impossible to find, even internationally, search funds ran by individuals who didn't graduate from a common MBA or yet an MBA at all. The only thing that change undertaking a career like a searcher without an MBA, is that it would be, most likely, harder.

2.4) Statistics on the International Search Fund

As mentioned before, IESE Business School in Spain is tracking internationally the search funds activity following the footprint of Stanford, and now collaborating side by side to keep records all over the world, sharing the information for free to make people aware of this new asset class.

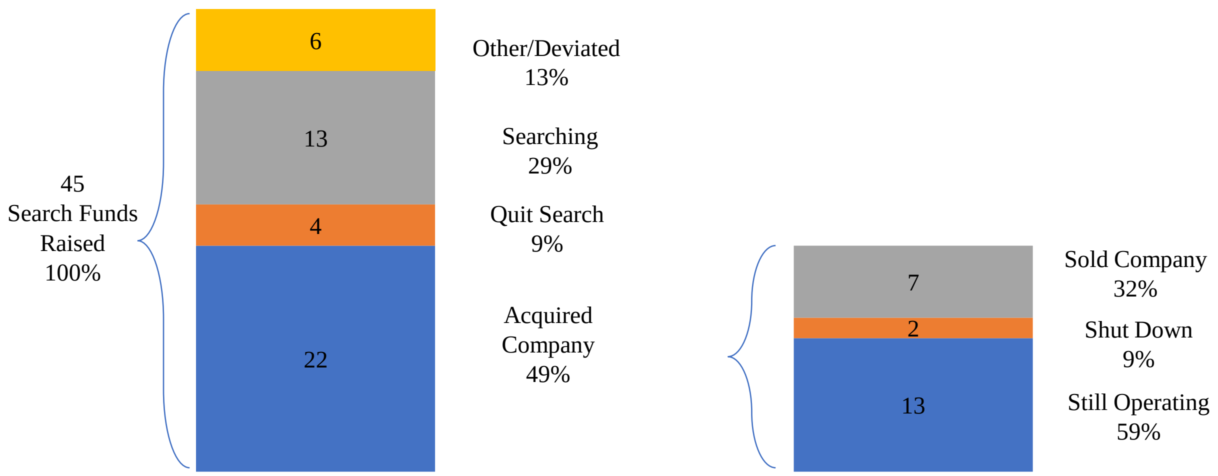


According to the latest study, as of December 2015, IESE identified 45 new first-time search funds globally, 23 of which formed since 2013 reaching a peak level in 2015 with 11new funds formed. Follow up the study and integrating it with the data collected from Searchfunder.com, in 2016 there have been raised[17] 23 funds and the year after 27 confirming the dramatic trend of growth showed in the last years. Along with the increasing number of new search funders, acquisitions are following the trend with the highest peak in 2015 as well, up to 6 deals closed. Due to the longer period of time, a smaller amount of funds exited the investments. Probably in the next couple of years the industry will experience more exits since more acquisition have been done after 2010 and the funds' industry mature.

[17] Data crowdsourced from Searchfunder.com – includes all search funds type and generation, the dataset doesn't include acquisitions and exits

Of the 45 new first-time search funds known as of December 2015, 13 were still either looking for a target or fundraising the acquisition capital. 4 funds gave up the search and other 6 deviated from the model using the search capital to form a start-up, for example. Almost half of the 45 funds acquired successfully a company: of those 13 were still operating the acquired, 2 have been shut down and incurred in a loss of capital while 7 sold the business with a positive return.

International Search Funds by Stage



In percentage terms, 50% acquired a company and only 10% failed at the search phase. 16% of the funds exited successfully the target yielding a positive return for them and his investors whereas 4% had a negative return.

2.4.1) Principals Profile

Respecting the essences of the search fund model, also internationally the average age at which an individual starts this career is 31, with the youngest at 26 and the oldest at 43. The three fourth of the searcher worldwide are younger of 36. Also, internationally, the chunk of the searchers are male, and only a handful of women started a search fund. As expected mirroring the US data, almost 9 out of ten hold an MBA, first vehicle of information for the model and 75% of them raised a fund within two years after the graduation. Validating the fact that US universities are the major source of new searchers, among those who hold an MBA 80% came from a US business school, even though in recent years the proportion is decreasing as new and more business schools abroad, LBS and IESE for example, are boosting the entrepreneurship through acquisition.

The investors interviewed admit that there isn't a specific background favored when they have to gauge to whom invest in, stressing the fact that a search fund career is feasible for every kind of background. As a matter of a fact, in the US there are funds run by ex-soldiers. However, in the 2016 Study performed by IESE, one-third of the professional backgrounds of the searchers embrace the private equity career, one fourth the management consulting, one fifth investment banking. Historically, management consulting and investment banking represent the most recurring background and only in the last years more private equity professionals decided to became entrepreneur. Other backgrounds such as venture capital and entrepreneur look unlikely to choose the search fund career so far.

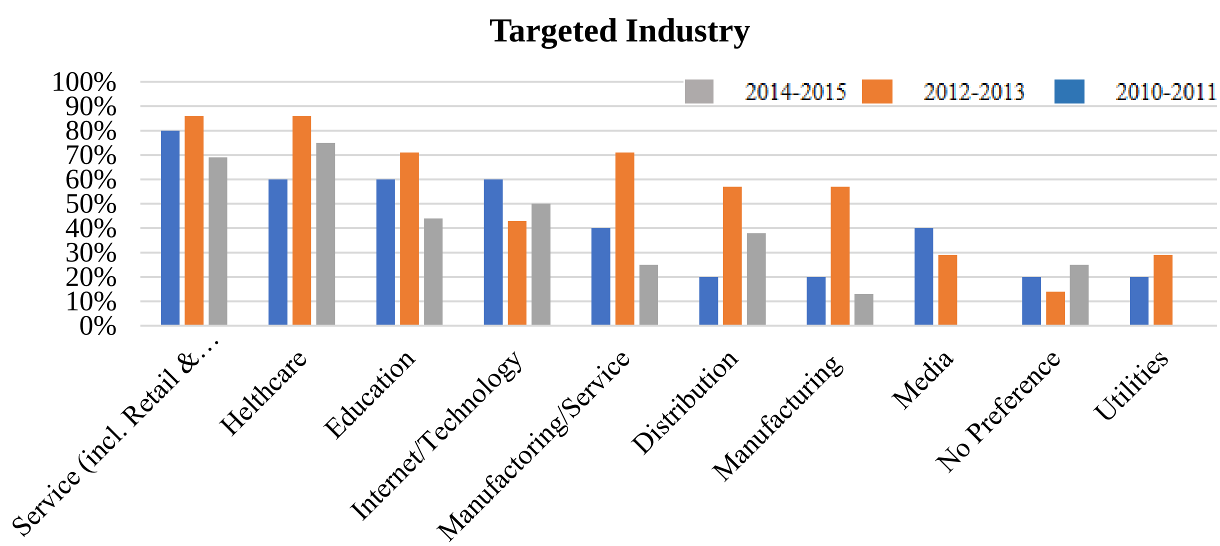
Professional Backgrounds	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013	2014-2015
Managemet Consulting	17%	0%	0%	20%	43%	25%
Investment Banking/Finance	0%	60%	50%	40%	43%	19%
Prvate Equity	0%	0%	33%	0%	14%	31%
Venture Capital	0%	0%	0%	0%	0%	0%
Line/General Management	50%	0%	17%	20%	0%	6%
Operations	0%	20%	0%	0%	0%	0%
Entrepreneur	0%	0%	0%	0%	0%	0%
Military	0%	0%	0%	0%	0%	0%
Sales	17%	0%	0%	20%	0%	13%
Others	16%	20%	0%	0%	0%	6%

2.4.2) Fundraising and Search

More searchers internationally went for a partnership, structure adopted in the 40% of the cases. The reasons indicated as motivations to have a partner are wide and vary: there is a need to have a complementary background within the fund, or increasing the efficiency of the search phase, or as often happened, there is a need to have someone with which share the ups and downs of this tough journey.

Statistics on the fundraising phase of international search fund show that the average amount of search capital sourced has been above $400 thousand in the last survey with a decrease of 30% compare to the previous analysis but almost double since the first records available. If the analysis focused on the amount of search capital raised per searcher there is a constant growth of the average search capital collected heading to $380.000 in 2015. This data reinforced the fact that more search funds are set up as a partnership and therefore more capital are needed to pay a salary to all the partners. The number of investor committing capital in the international panorama are on average 15. Most of them are serial investors coming from the US even though is suggested to have a good portion of investors coming from the country where the search fund is operating. The reasons why American investors are related to the fact that in US the model is already developed, someone already exited and thanks to the returns obtained is now investing only in search funds worldwide. Besides, since many searchers did an MBA in the US they are approaching their school network while fundraising and therefore meeting with Americans. Is also recommended to have a serial investors group within the pool because they are more likely to help and give guidelines since they know already how the model works and how to deal with the searcher. For the investor is a way to diversify their portfolios, not only by industry but also geographically. Finding a mixed pool of investor is not easy, especially if a searcher is the first approaching a country, where few people knows barely the model. Educating the potential investors, first to the model, and then to the searcher project, requires time. That’s why on average, the median number of months that takes a searcher to fundraise a search fund internationally range between four and five.

Outside the US searchers look like more opportunistic in their search process without constrain its boundaries both in terms of location around a country and regarding an interested industry. However, they have to indicate some preferred industries, at least in the private placement memorandum to present in front of the investors.



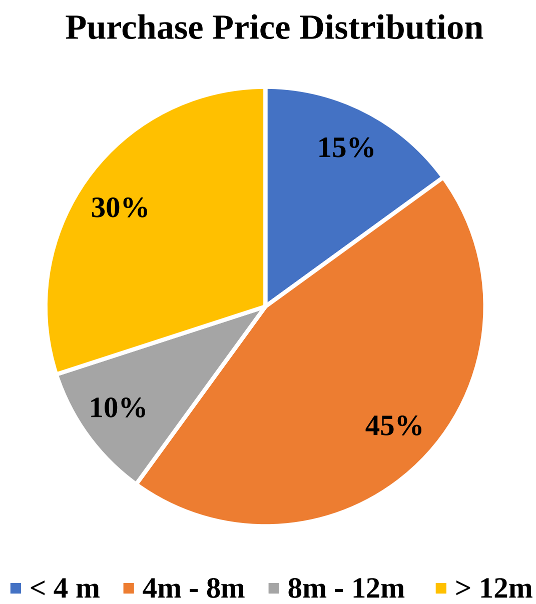
Among the industry preferences showed by the searchers during the surveys, business services looks like the most targeted industry perhaps influenced by the successful exits occurred in this industry in the past, and because many other fund are seeking opportunities in the same field, also in US. To follow, healthcare, education and technology are the other industries mentioned the most at least one out of two times. Within technology, software, internet and hardware are the subcategories considered by the searchers.

2.4.3) Acquisition

The search phase is one of the toughest period for a searcher because involves reaching out hundreds of companies, defined based on the criteria chosen, and screen the deal flow. However, the international search fund Study reveal that the pipelines of these funds are shorter, reviewing a mean number of 216 companies before the acquisition. This number is extremely low if compare to the US search deal flows where American searchers have to review more than double companies for the same outcome, acquire a single target. Accordingly, out of the 216 companies identified, around 30 ends up in an initial approach, and couple with a LOI signed before the right deal. Principals operating outside the US and Canada preferred a proprietary approach while seeking for a target, even though brokers, M&A houses and investment banks are used as well. A self-research consists in contacting directly business owners and assess whether they are willing to share information and sell the business or not. Broker deals are used in particular to get familiar with the processes to gauge financial and qualitative information in the teasers. Is not the first method because it embedded a risk of competition due to the availability of the same information and therefore leading to a higher price, unlikely affordable for a search fund.

This data is supported by the median number of months employed by the searcher to find and acquire a target that are 16, less than the US based search funds. However, in the recent acquisitions there have been a longer search period averaging in 2015 around 22months. Statistics show that the major part of the searchers spend more than one year to find a target, 60%, but a big part of them closed a transaction in less than 12 months 40% compare to 10% of the American funds.

The international sample are narrower but allows anyway to infer some information. 22 companies have been acquired, counting for 49% of the total search funds formed worldwide, where 13 are still operating, 7 sold the business and exited successfully while 2 shut down the firm (4%). The average characteristics of an international acquisition performed by a search fund are a purchase price of about $5.8m to buy a company having sales for $8m and a 19% of EBITDA margin. The lowest price ever paid amounts to $0.8m and the highest $22m, demonstrating that the international acquisitions have been smaller than the American one. The chart helps the analysis showing how almost half of the acquisition performed fall into the 4 to 8 million range with a lower number of deals in the 8-12milion range if compared to the American information. A possible explanation comes from the size of the countries: in US is most likely to find bigger companies rather than an average European country. Another reason, liked to the previous one, is that investors are wealthier and risk seeker, therefore more willing to commit capital enough to buy bigger companies. Nevertheless, in the 2016 Study the average acquisitions features described bigger deals where the purchase price has been \$13.1m, to buy a company with \$11.8m in revenues and 20% of EBITDA margin. As shown for the American acquisition then, the trend is going towards a bigger and better companies compare to the first acquisitions.



After the acquisition searchers are bringing some of their investors to the Board of Directors to continue support them during the operation phase of the search fund life. Internationally, more than one-third of the BoDs members are serial search fund investors, 20% come from the related industry. Two-third of them served already in a board before and they have a mean number of experience equal to 25. Further, searchers recognized with an evaluation of 8 out of ten, that the effectiveness of the board members.

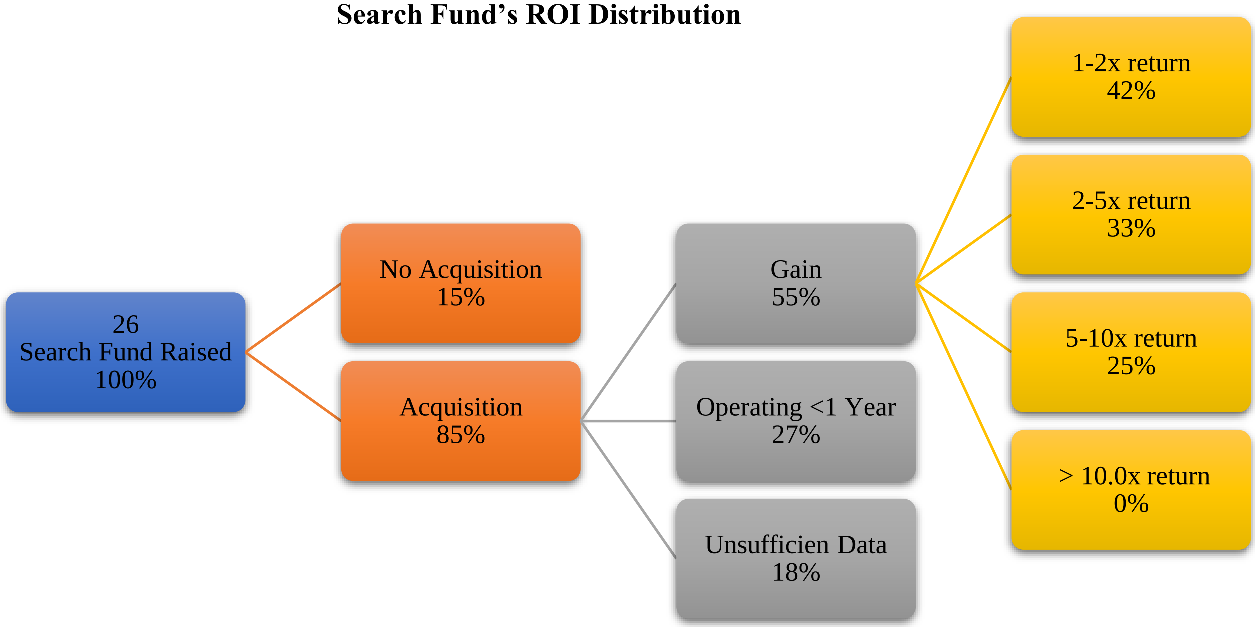
2.4.4) Returns

The forte of the search fund model in the US is the returns it offers as an asset class. In fact, thanks to the returns achieved along the years that it became a real investment rather than remain a simple concept conceived at school. The IESE Study, of course, is tracking the returns the model is performing in the international panorama, and the metrics are the same used by Stanford. The two main methods ROI – called also MOIC: multiplier of invested capital – and IRR are used to calculate the returns achieved by the search funds on the initial capital invested, meant as the sum of search and acquisition capital, as Stanford does. To recap, the Return on Investment represents the multiplier of the initial capital invested, returned to the investors. Assuming $3m of initial capital invested, a ROI of 4.5x means that the capital returned to investors amount to $3m x 4.5 that's equal to $13.5m; instead, a complete loss of the capital invested means a ROI of 0.0x, as an example. The Internal Rate of Return is calculated as the compounding rate derived from the actuals search and acquisition capital invested and returned by the investments. It's the discounted rate that equals the amount invested with the cash flows returned in a given time period. For consistency and for compare the returns, both measures were calculated on a cash flow basis including both equity and debt invested, assuming that the investment were committed at the same starting date, and on a pre-tax basis. The sample include the unsuccessful search funds, operating searchers and exited companies.

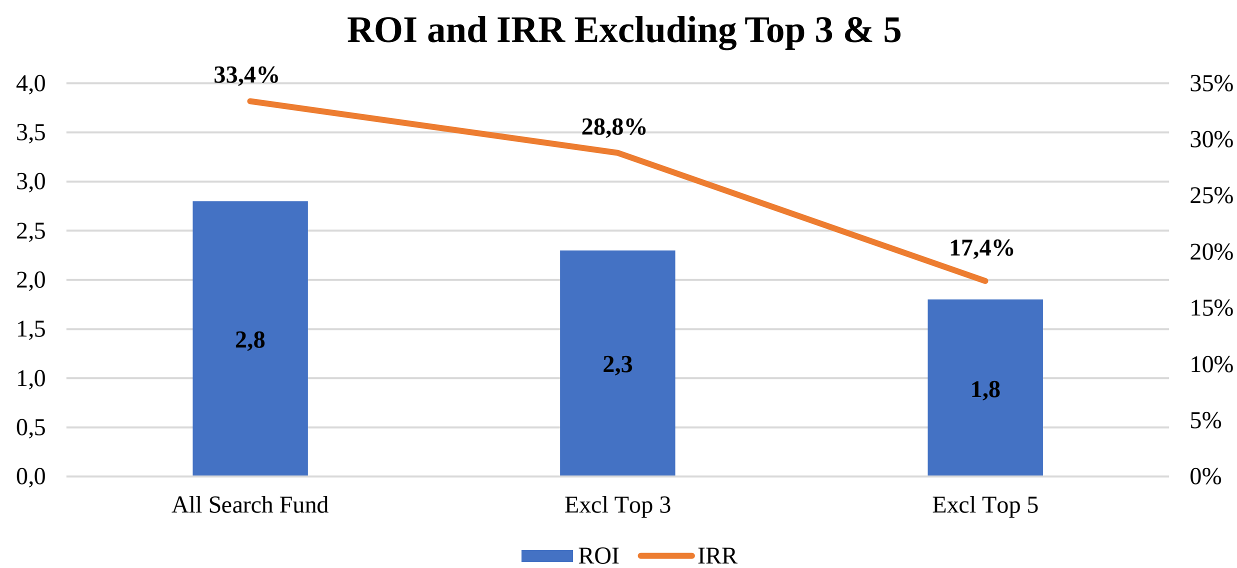
As regard the international search fund, IESE recognized 26 funds eligible and to take part of the calculation. Among them there are raised funds, funds that acquired a target and even shut down funds. Only 16 however, have been effectively used to calculate the measures: six funds were remove because the principals operate them for less than one year, and other 4 due to insufficient data, unresponsiveness or other reasons. Within the 16 search funds used, 4 were unsuccessful while 12 either exited and obtain a positive return for the investors or are still operating.

For those who exited successfully, the calculation of the enterprise value has been easier, while for those who were still operating the enterprise value was estimates by the searchers itself and then used in the Study calculation.

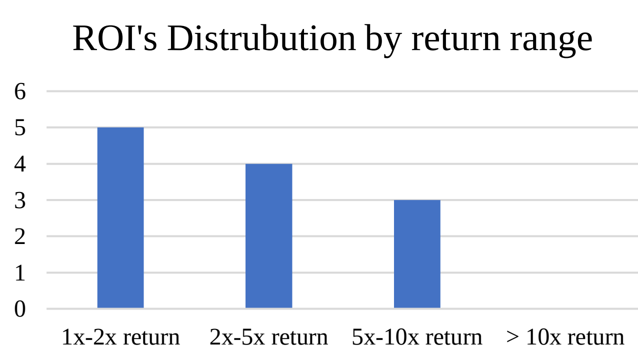
Search Fund's ROI Distribution

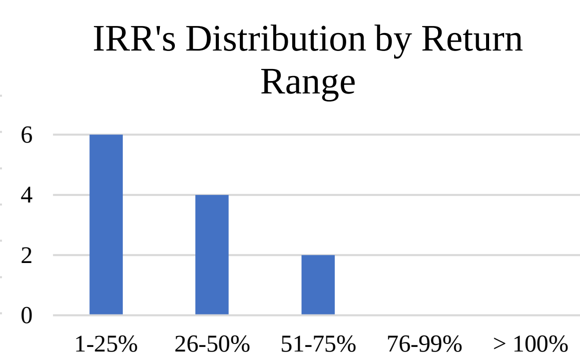


The international search fund asset class achieved a ROI of 2.8x and an IRR of about 33.4% confirming the viability of the model also outside the North America boundaries. Excluding the unsuccessful searchers, the IRR doesn't change significantly, and the MOIC raise up to 2.9x. The median ROI of all search funds stands at 1.9x with the highest return achieved at 9.2x; removing the unsuccessful fund that didn't acquire a target, the ROI goes to 3.4x. Performing a scenario analysis to assess whether top performing exits influence dramatically or not the measures, it has been remove the top three and top five search funds. The results show how the return on investment decrease to 2.3x when the top three are excluded and 1.8x when the top five are removed. For the IRR measure, the return goes to 28.8% if the top three performers are removed and it slips to 17.4% when the top five are taken out. Despite the small sample, a few numbers of positive outcome affected positively the overall returns.



Yet, these results are aggregate figures and an individual search fund's performance can be different and wide. In the charts below there is a breakdown by number of exit in different range of ROI and IRR returns. Internationally there haven't been so far a massive exit with huge returns, however on average figures are mirroring the American funds, confirming his viability.





2.5) American and International Search Funds: Main Differences

This paragraph is aimed to give an overview of the main differences among the traditional search funds existing since more than 30 years in North America, and the same traditional search fund model implemented abroad, internationally, in more recent years. Although the essence of the model is unchanged, with the same principal targets, terms of fundraising, pool of investors, criteria to find and screen companies to acquire, there are some elements of odds. These elements for example can include qualitative aspects, country specific variables, different business techniques. The information used to point out these variances, on one side, are coming from a comparison between the Stanford CES 2016 Study for the American Funds and the IESE Business School 2016 Study for the international funds. In the latter, they collect qualitative information as well, enriching the surveys with meaningful insights. On the other side, there have been done a series of interviews with principal across Europe and one in Africa. In particular, 12 searchers have been reached out throughout a Skype video/call asking a set of questions designed to gather both quantitative and qualitative information about the searcher, the funds, the investors and the phases completed, or still going on, of the search fund. These interviews have been extremely helpful to understand the anomalies coming from the numbers and give a proof to these facts.

To underline the differences, the paragraph will be divided in macro-topic and for each of them will explain the differences and where they come from

2.5.1) The Principals Profiles

Theoretically, the search fund model was thought for young, talented and inexperienced individual and, indeed, the data tells that on average worldwide individuals at 31 undertake this career. In both cases, North America and Internationally, the youngest searchers are around 26 years old and the older ones are above 50 in US and below 45 for international. Perhaps, due to the fact that the search fund model in the US is wider known, more individuals are amazed by the features of this asset class and are willing to choose this path even later in their careers after 20 years of experience. Even though “talented” can have an infinite number of means, it might be considered *talented* someone who graduated from a top rank MBA. In every edition of both Studies, more than 80% of the searcher have attended an MBA, and in all the interviews performed no one of the searcher were without this title. However, almost 20% of the searcher don’t have an MBA and the trend in North America is increasing in the last surveys where almost 50% of the new searcher in 2012/2013 didn’t have an MBA, decreasing to 25% in the last version. Vice versa, internationally all the searcher until 2010 have an MBA, and only a small portion of the new searchers later lack of an MBA experience. Since the model have been devised within a business school and is still taught in several courses, it's reasonable that most of the searcher came from this environment. Is even more comprehensible abroad, where the model came later and thanks mainly to students returning back to their home countries to set up a search fund. With the diffusion of the information and knowledge regarding the model, perhaps, other talented individuals without an MBA might be interested to form a search fund. Generally, among those who get an MBA, on average half of them started a search fund the last year of the Master or at most within a year after the graduation. Someone in the US started a search fund even before attending an MBA but there are also the ones who waited the most time, in some cases 20/26years. Internationally, so far, neither one searcher waited more than 6 years. It is important for those who attended an MBA to use the network of the Business School reaching out past or current searchers as well as potential investors. Worldwide, searchers are men for almost the totality, and only few women choose the entrepreneur through acquisition path.

Apparently, women tend to dedicate the beginning of their career to build up their credibility in big, well-known companies to achieve higher positions and salaries, while postponing the entrepreneur profession. To Matlack conducted a survey on the topic submitting it to all the female searchers know at that time, and he wrote later "10 ideas for increasing the number of female search fund CEOs" summarizing the results. The outcome allows Tom to identify some ideas to enhance the participation of women to the search fund path. For example, he suggested to demystify the private equity or investment banking background as a prerequisite to become CEO, or the bad work life balance. He added that being a searcher means work in a team and the background is not a hurdle, yet, being the CEO has some advantages like deciding how, when and where to work. According to him, there is also a need to share awareness on the female role in search, collecting and publishing data, sharing best cases, creating a network of women. In an Interview with Ivona Hrušová Butcher, principal at Continuum Search Fund in Praha (CZ) together with her husband Corbin Butcher, she pointed out an underlying fact that affect the sensitive search fund environment for a woman. She mentioned the fact that the majority of investors, in particular the first generation, those who invested since the beginning in the model, are biased by the role that a woman had in the past, because they grew up in those year where the women were the housewife taking care of the family. This doesn't want to be a fault but indeed a fact when women approach investors, risking being discriminated. Yet, this subconscious meaning is even more marked when women deal with local business owners of SMEs, often close to retirement with no international experience, open minded and therefore an old view of the role of women. Ivona said that all these factors influence the ex-ante decision of a woman to go for an entrepreneurship through acquisition career path, afraid and unwilling to face all those mental barriers that still nowadays are happening in business as well as other environments.

All the principals interviewed are on average 35 years old, men, and except for the Spanish ones, all the other took and MBA outside their home countries, mainly in the US, some in Spain at IESE or IE and one at INSEAD (France). The majority of them started the fundraising immediately after the graduation starting from the School's network, someone else preferred to fund a start-up and once sold it, set up a search fund. Moving the focus on the professional backgrounds hold by the searchers, there isn't a big difference: internationally and in the North America the most common background is the private equity one. A potential reason is that a private equity experience bonded a lot of competences a searcher needs starting for example on how to organize the deal flow, how to gauge the teasers, perform a due diligence, close a transaction and not less important, how to operate a business. Although a private equity manager is not the CEO of the acquired, he/she seats on the board of the companies in his portfolio and therefore get in touch with strategic and operational decision, useful in a search fund career. This background is followed by management consulting and investment banking. Internationally there isn't a wider professionals category, except for some rare cases, whereas in America we can see soldiers, lawyers, entrepreneurs committing in the search fund path. The interviews have seen as participant a wide span of backgrounds, accordingly with the data collected by the Study, ranging from entrepreneurs in start-ups, private equity, investment banking, operations.

2.5.2) The Investors and the Fundraising Phase

International search funds principals claim that the fundraising phase have been the hardest one and in fact, the data are displaying a longer time period to set up a fund for them compare to the American one. The average number of months that takes to fundraise for searchers have been 3 months in the US with a high at 8 months while internationally it takes up to 12 months, with an average of 5. The cause stands in the longevity of the model in North America and the fact that the search fund asset class is already a mature business with proper funds dedicated in investing only in smart individual seeking to become CEO. Exploiting the network of the MBAs' Schools, past searchers and serial investors, it's relatively easy for them to collect the search capital needed. Further, the fact that they operate in the investors' home country it's a huge advantage because it eliminates the risks coming from an unknown Nation, markets, industries, business culture. Internationally where the search funds model is not as known as it's in America, searchers found challenging collect capitals. The main hurdle has been educating potential investors on the opportunity they will get investing in this asset class, explaining the risks and returns, the capital structure, the terms and the conditions as well as the fundamental role of the investors in a search fund. They spent much more time to market the model rather than sell their investment proposition. Some investors were afraid about the viability of the model, others about the returns, yet, others didn't understand the reason why a principal needs the search capital rather coming with a deal and discuss the acquisition one. In the main countries where the search fund asset class is gaining momentum and importance, like UK, Spain, and Germany, is now easier for searchers to raised search capital since those investors are familiar with the model and had invest already in it. Especially in Spain there are some serial investors who diversified their portfolio of search fund investing in a lot of them and their names are recurring quite often within the country's fund and also in Latin America. Different argue for UK and Mexico where, thanks to the closer business culture or geography it's not tough to collect search capital since American investors are likely to invest in these countries. On the other hand, investing overseas, in Europe for example, embedded extra risks that sometimes not all the investors want to take. From an investor's point of view, is reasonable to ask to the searchers to find local investors and then they might be willing to invest as well in their project. First, local investors are priceless since they well-know the business environment, industry, trends of the country specific, and secondly, they enjoy of a great network to support the searcher with the search phase and during the operation. Anecdotally, some searchers found local investors willing to commit capital after serial American investors did, as a sign of credibility and viability of the asset class. Anther hurdle come from the corporate law existing in different countries. In US the search fund is legally a Limited Liability Company LLC with all it's benefits, whereas abroad this legal entity not always exists, and searchers have to be creative on how to incorporate the fund. Somebody used debt rather than equity, but in most of the cases searchers set up the fund in a close country where the laws and costs are better. In Europe for example, the UK is where the legal entity has been incorporated for many European search funds thanks to the lower legal costs, and an already existing structure for this type of asset.

Nevertheless, international search funds have been able to raise more search capital than the overseas ones, on average $15.000 more per fund. However, taking into account the capital raised per principal, the mean is equal standing at $380.000. The reason is that internationally the have been more partnered search funds leading to a higher search capital collected on average, while looking at the capital invested per principal the amount goes back to a similar level. Also, the number of investors per fund are equal to 15. An additional strength for international searcher is coming from the fact that the investors pools are more heterogenic, having not only a diversification in experiences (past searchers, serial investors, industry specific) but also an international network thanks to the different geographies, extremely helpful during the operations. Almost all the international pools of investors are composed by local investors and at least a couple of American individuals. By definition, let's say, more educated and aware of the search fund model, his potential and how it works. Indeed, to the contrary, then the fact that international search fund investors are committing capital in the US, is not that common yet. Since one of the most common operation quoted by the searchers is the internationalization, having a diversified and spread investor base should be helpful to achieve more sales abroad.

All These differences and divergence between American and non-American based search funds might affect the pace of new searchers engaging in this path. Although there isn't a proven correlation, these hurdles might be challenges that contribute to fewer formation of search funds outside the US.

2.5.3) The Targets, the Search and Acquisition Phase

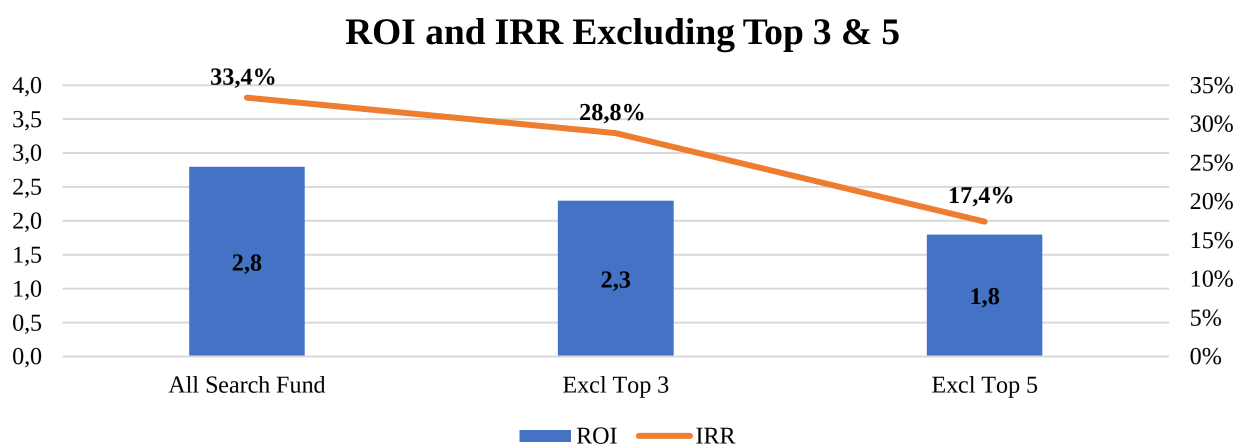
The targets sought by the searchers present the same characteristics worldwide since the criteria used are a bonded part within the model. All the searchers are looking for small-medium size companies with recurring revenues, no customer concentration, high growth potential, stable cash flows and high EBITDA margin. In terms of industries the scenario is similar, both US – Canadian funds and international funds are mostly seeking opportunities in services to business, healthcare, education and technology, generally non-cyclical, mature, and growing industries. Furthermore, both of them on average acquired companies with $7/8 million in sales and an EBITDA around 20% with a consequently multiples of 1x sales and 5x EBITDA. The main divergences come from the number of employees much lower in the US firms and in the growth rate at purchase, higher in the US-based funds acquisitions. Moreover, the trends of the search fund model worldwide are heading towards bigger companies, healthier with higher EBITDA: of course, these trends are also inflating the multiples leading to more expensive acquisition prices in the future deals. However, there is a big distinction between the two geographies of the funds, and it's the size of the economy reachable. The north America principals can source companies around a bigger economy leading to a higher number of targets in a wider locations range. It as been estimate that there are more than 200 thousand companies with a sales range from $5 to $50 million in the US, 51% of them with an owner older that 55 and therefore looking for a succession plan in the next 10 years. Internationally, the countries are way smaller, and this is one of the limits the searchers faced during the preparation of the deal flow. Also, American funds can expand their search across all the States due to a common language and business culture. Instead, in other countries, even Europe this is almost impossible. Some countries might be closer to each other like Germany for example enjoy the same language in Austria, Switzerland and Belgium but is not enough to overcome the limit although it will help. Despite that, the number of searcher internationally are not outstripping the number of potential targets, also because as the time pass, more owners will be older, and they might want to step back from the day to day operation. As a proof of that, the Mexican successful acquisitions are a great example on how searchers can find a target even if the economy is not as big as the US one. Further, exist a difference on the ways searchers look for a target and is mainly country specific driven. The Studies show that the American search funds identified a larger number of business opportunity before entering in more serious discussion as it could be a LOI. In fact, more than 500 companies appeared in the deal flows of the US-Canada searchers while only a half is showed by the international funds. The reason is that the American funds are intensively using brokers to source deals, even though reaching out firms remain the preferred method. Yet, especially in Europe, searchers can used databases to source deals where there are, publicly, information about the financials of the companies and even the composition of the board/ownership. This is extremely helpful in screening since the beginning the opportunities, reducing precious time and effort in this phase. Linked to the same reason, international searchers prefer source by themselves the targets, using barely the brokers only to warm up with the processes and get familiar with teasers and all the necessary information needed. In this case different methods are used according to the culture of the country. In US cold calling mass emails and letter writing works are the same way. In Germany for example cold calling is perceived as too direct, mass emails in Spain are not available since email address are not public, in Brazil only the personal network works.

The data validates all these features demonstrating how the median number of months to search and close for a deal is shorter for the international search funds, 16 months, while for the north American ones is three months longer. Also, in absolute term, the longest international acquisition took 42 months to be closed, instead, in the US have taken 87 months. The faster one, 1 month and 3 months respectively.

During the interviews some particular aspects of the European searchers have been raised. Overall, they are looking for opportunistic target in some specific industries but with no constrains as they can deviate from the PPM indications. They are following the trends of the average funds, seeking opportunities in the business services industry, healthcare and technology. Interesting to note that someone is looking for light manufacturing company, often excluded for his high capex requirements. However, the opportunistic approach they are following allow them to deviate from those industries and if another one is a better fit, they will pursue the latter. Even in terms of location they are not focusing on a specific area, due to the size of the economies is wiser using a broader approach. Whatever the case, the self-sourcing method is the preferred also in their cases using brokers only at the beginning to get familiar with the methods and documents. They used, as well, a mix of calls, letters and emails to reach out the targets, and expressed as extremely important to visit physically the companies, observing the plant, machinery, talking face to face with the owners and the management. They said that they have got more clear information visiting the companies, asking directly questions and obtaining insight that in other ways wouldn't be possible. Only two out of 12 searchers admitted to looking also outside the boundaries of their nations, targeting two or more countries. They didn't express difficulties in find investors willing to commit the acquisition capital, not even banks unlikely to land them money. They expect to finance both with equity and debt their acquisitions without incurring in a seller financing or new investors. Sometimes they admitted that have been tough to explain to the owners the model, completely new for them, and in a certain sense educating them before entering in deeper discussions. Indeed, beyond that, owners have been so far accompanying the searchers during the due diligence phase, likely to have seen a "younger-me" in the eyes of the searchers, facilitating the transition process. More, owners showed interest in remaining in the company after the sale, both for a short term or even for longer period.

2.5.4) The Exits and the Returns

As regard the exits and the returns outlined by the search fund model is hard and too early to make a comparison, in the hope to infer statistics or reliable inclinations since only 7 exits occurred in the international panorama, versus a bigger number of 53 exits occurred overseas. Worldwide 50% of the total search funds raised, acquired successfully a target and among these 15% exited positively. Apparently in the north America the cases of unsuccessful exits are higher but is also is necessary to take into consideration that many acquisitions made abroad have still to arrive to the end of the holding period. The latest peak of acquisitions made internationally go back to 6-8 years ago and probably in the next edition of the International Search Fund Study more data will be available. The next peak occurred in 2015 with 6 new acquisitions but, considering an average of 7 years of holding period, the first exits will be after the 2020. Despite that, the actual data available tells that the aggregate Internal Rate of Return, showed analogous above average returns compare to similar asset classes, like private equity for example, standing at 33.4% for international funds and 36.7% for the American one respectively.



Looks like the international exits are mirroring the outcomes of the US based ones, strengthening the credibility and viability of the model also in other parts of the world and allowing the development of the asset class. Those outcomes, in general, are triggering the birth of more and more search funds because it attracts more individuals to engage in a search fund path, and more investors to gain such returns committing more capitals. In terms of the strategies pursued by searchers to exits their deals, there are several options among the most common one used by the private equity fund. Search funds, however, unlikely are choosing the public market as an option, favoring strategic or financial buyers like competitors or private equity funds. Only one search fund went public as an exit strategy in the US, called ServiceSource, listed in NASDAQ – SREV. Indeed, financial players are the most common buyers for search fund deals. Sometimes they are the same investors who financed the searcher/s to buy the target acquired since, perhaps, they seat also in the Board of Directors of the acquirer. Internationally, searchers said that having investors with a great network and capabilities helped them to succeed in heir acquisitions and then exits. Yet, someone admit that the successful exit wouldn't have been possible without the role of the investors.

3) Feasibility of the Search Fund Model in the Italian Market

This chapter is aimed to understand whether the search fund asset class is feasible, or not, also in the Italian market, depicting the current situation in Italy and scoping out the possible future developments.

The search fund model, the recent private investment vehicle with the aim to allow a young talented but inexperience individual to seek, acquire, operate, and exit a small medium enterprise, backed by a pool of active investors, have proven viability in the US market and is gaining credibility also internationally. As seen in the previous chapter both in the America and internationally, mainly Mexico and Europe, the model has literally boomed in last years, reaching his highest peaks. Among the European countries, UK have been the first one hosting the model, where the first searcher overcoming the US boundaries has set up his search fund back in 1992. Followed by other UK-based searchers, search funds started to be raised also in Austria, Germany Belgium and Spain. However, some countries experienced, so far, few sporadic cases without seeing an evolution or a new trend happening for the asset class. It is the case for The Netherlands, Belgium and even France. Whereas, other countries like UK and Spain look like the most willing to be the heart of the model in the Old Continent owning the bulk of search funds in Europe. The first, UK, thanks to his strong ties with the American culture and business schools like LBS, the second instead thanks to the International Studies and Conferences on the topic performed by IESE Business School. It looks like that there is a positive correlation between the engagement of the institutions like Universities and the number of searchers that embrace this path. Spain is the emblematic example where, as mentioned before, from 2011 IESE is collaborating with Stanford on tracking the international search fund. This led and is leading to a higher diffusion of knowledge among professors and students that at the end turns out in more new search funds raised, and as a matter of a fact, now Spain is on the top countries per number of search funds.

Thus, does the search fund model arrived in Italy? How it came? How is it evolving? Which are the opportunity and the hurdles? What are the main differences against the traditional model popular in the US?

The research has been conducted screening all the literature available, the articles on the newspapers that approached the model in Italy, and sourcing also information from web. Then an on-line platform called Searchfunder.com is creating a global network gathering all the individuals interested the search funds: from searcher-to-be, investors, past searcher and current CEOs, professors and curious individuals. Thanks to them it has been possible to collect and analyzed all the search funds worldwide existing, the Italian ones included. Furthermore, interviews have been completed reaching out directly the searchers actually involved in a search fund career path via calls, skype calls and face to face meeting.

3.1) The Italian Market of Search Funds: The Players

As said before, the search fund arrived in Europe in 1992 in the United Kingdom, and it took some time to diffuse among other countries of the continent. Nowadays, few nations didn't experience the model like Ireland, the Balkans, and the Nordics except for Sweden.

From 2016, the Italian panorama has seen some search fund cases playing around the Country thanks to some Italians that approached the model during their MBAs abroad and decided to come back in their home country and become a small medium enterprise's entrepreneurs. Up to May 2018 there are six search funds currently operating in Italy and a searcher-to-be, currently preparing the investment thesis as well as the PPM to start the fundraising process in August, latest September. Among those already set up, 3 are traditional search funds, two are self-funded, and one of them is a deviation from the original model in the sense that is using the structure of a traditional search fund but with relaxed criteria and looking for slightly different purposes, and the last one is unknown. In particular, there is no sufficient information for the latter due to unresponsiveness, and unfortunately no one of the other searchers interviewed knew something about it; the only information available are those few displayed in their web site.

3.1.1) The Evolution of the Model

The Italian market experienced for the first time the search fund model in 2015 when two searchers where pitching in front of investors trying to get fundraised. Christian Paone, 44, coming from a global executive MBA at London Business School and Columbia University and Tommaso Romanelli, 40, holding an MBA from IE Business School in Madrid. Christian ended up establishing a self-funded search fund later in 2016 after a tough period struggling to convince Italian investors to believe in him and his investment. Tommaso instead successfully fundraised backed by a pool of investors coming from Spain, US and Italy and set up the search fund in February 2016. Therefore, Tommaso Romanelli with his Tre Cime Capital, is the pioneer of the traditional search fund model established in Italy and based in Verona. Christian Paone, is also a pioneer with Dolomites Capital that is the first self-funded search fund showing off in Milan, at the end of the 2016, some months after Tommaso. Even though they are similar model, some differences especially in the first phases of the path make them not really comparable and even prestigious business schools treat them separately. The self-funded search is missing the important support that a searcher receives from the investors during the search phase, not only in terms of support itself but also in building a relationship that will be crucial in the acquisition and subsequent phases. On the other hand, the searcher is more flexible with the target's investment criteria and he/she will get more ownership on the acquired, since the search capital is missing and won't be remunerated.

Thus 2016 is the year where the search fund model officially kicked off in Italy and in the same year other individuals started to look into the model with a strong interest. Guido Fileppo (Patria Private Capital), Vito Giurazza (Maestrale Capital), and Nevio Zaino with his Dutch partner Peter Sleeboom (Magnolia Partners) started pitching to investors with the goal to collect enough search capital from a diversified bunch of people. Guido is and INSEAD alumni, Vito did an MBA at the New York Stern Business School with an exchange at IESE in Spain, and Nevio and Peter hold an MBA from IESE. All of them set up their own search fund in 2017, first Guido in August, then Nevio with Peter and Vito in September. Guido based his search fund in Turin, while the others are based in Milan. Guido and Vito are doing a traditional search fund as intended by Stanford guidelines, seeking for a SME target, performing in a growing industry with great financials, backed by a group of local and international investors. Nevio and his partner instead are using the structure of the model, his terms and ways of working but they are seeking for a wider range of companies, easing the requirements that narrow the research. Yet, since they are a partnership, and both are seeking to become a CEO, they are looking also to acquire more than one firm. The reason why hey relaxed the criteria and are looking for multiple targets is that they are more experienced and therefore flexible to bear more risk in choosing the company. The last search fund known is called Quaero SRF but there isn't much more information about it. In the web site they are barely providing what they are looking for, with no names on the "team" page of the site. According to Searchfunder.com they were based in Rome but recently they written off their fund from the platform even though the website is still working. Yet, no one of the other searchers interviewed have information about it although they tried to contact them, but they didn't succeed; the requests to have a chat with them is still with no reply. Lastly there is another search fund's fellow interested in the model and he is currently preparing all the documents to present in front of the investors and thus start the fundraising phase. He is Toby Clearance-Smith and he got an MBA from Wharton and after a start -up experience in Mexico he decided to come back to Italy, in Milan, and start this new entrepreneurial adventure. Searchers admit that an increasing number of people are contacting them to have more information and insights, and among this group there might be other potential searcher-to-be in the near future.

3.1.2) The Importance of the MBA

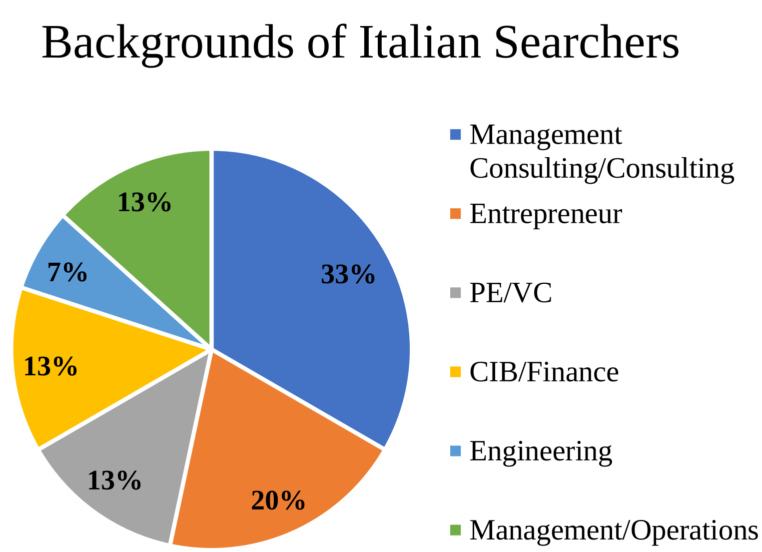
It is important to highlight from which MBA program the searches come from because in most of the cases is the first contact to the search fund model, both in terms of theory and in practice meeting other individuals interested, past searchers, or guests having a lecture on the topic. As mentioned in the second chapter, the top rank Business Schools worldwide are offering with more frequency lectures or even entire modules in their curricula to the search fund model, inviting investors, professors, current or past searchers to share their experience. The role of the institutions is central in sharing the awareness of this new asset class, making the students aware and giving them the theory and the practice tools to embrace an entrepreneurship through acquisition career. For all of the searcher mentioned above this have been the case: all of them attended an MBA in one of the most prestigious Business Schools where the search fund model is taught. Among those, IESE in particular is the one who is clearly believing in the potential of the search fund and pushing the students to choose this career path. It is holding an annual conference in Barcelona (ES) and publishing a biannual Study on International Search Fund in collaboration with Stanford: thanks to that IESE is now a point of reference for everyone interested in the search fund, attracting visiting professors, serial investors and searchers-to-be. Other business schools are active too, teaching the nuances of the model and bringing guest to the stage. In particular at Warton, being in a great spot both in the MBA ranking and geographically, surrounded by search funds in Philadelphia, is also helping the attendees to do an internship in one of those. INSEAD is teaching the model through a lecture called "*Realizing Entrepreneurial Potential*", the London Business School has among others, the first non-US searcher, Simon Webster, as an Alumni and a Professor.

3.1.3) Location and Legal Aspects

Since, at the end of the day, almost all of them came back to Italy after an MBA attended abroad and/or after a job experience completed outside the Italian boundaries, the reasons of where they have based their funds is not completely random. Most of them decided opportunistically where to relocate once back in their home country. Milan, Lombardia, is the best place to be from a financial point of view, being the heart of the financial market in Italy allows searchers to better and easier meet with investors, banks, and brokers if needed. Is also located at the center-north of the country where the bulk of targets, the SMEs, are also located and close to several airports allowing fast and easy movement. Verona is also a virtuous spot to be, located at the hearth of the economic triangle of Italy, Veneto – Lombardia – Emilia Romagna, where 50% of the small and medium companies resides. Yet, Verona has an airport and it's close to Milan and his economic area. Turin too, is located in one of the most developed region of Italy, Piemonte, well connected with Milan and all the North side of the country allowing fast moves to visit the companies and attend meeting in Milan with the investors if needed. Yet, Guido and his Patria Private Capital search funds, did the high school, the bachelor's degree, the MBA in France and he has French investors as well: Turin therefore allows him to be very close to France as well. Quaero SRF is based in Rome, the capital of Italy, and the heart of the economy on the Center-South of the nation. However, for the same reasons mentioned above, there is no evidences on the motivation why the fund is based in Rome. Even though all of them are operating and seeking a target in Italy, only Maestrale Capital, Vito Giurazza's fund, and Magnolia Partners are incorporated in Italy. All the funds raised so far are incorporated in London, UK, and operating with a subsidiary in Italy. According to the searcher having incorporated in UK the fund, there isn't a legal entity that fits with the search fund needs in Italy, like the collection of capital from different individuals with an easy management of the equity shares and the relative terms. Further, the closest entity available under the Italian law is the SGR (Società di Gestione de Risparmio) but is unpracticable due to his constrains like the high compulsory capital requirement (€ 1 million) and the high legal cost to set up it, unaffordable for a search fund. Is much easier for a searcher to set up a Limited Company in UK (LC) since the cost associated to the incorporation are not material and the bureaucracy hurdle is overcome thanks to the history of the search fund model in the country. In fact, lawyers and attorneys are using standardized contracts to set up legally a new fund, reducing drastically the amount of time and money necessary to get the process done. Sometimes serial US investors are more comfortable to commit their money in a UK fund rather than other countries, independently of where those money will be used. Having said that, Maestrale Capital is the first Italian traditional search fund to be incorporated in Italy. The motivations to incorporate in Italy against other countries supposed to be better on the search fund legislation, and the characteristic of the legal entity, which kind and with which terms, unfortunately are information that have not been collected. As regard Magnolia partners instead, they incorporated a SRLS in Italy since, being self-funded they are using their capital and they don't need to allocate shares or governance roles. Once they will face an acquisition, probably they will use a vehicle to merge the two/three entities in a single company.

3.1.4) Characteristics of the Italian Searchers

The characteristics of the Italian searchers are similar to those seen in the international panorama, but with some light differences. The mean age of the searcher is 38, with the oldest at 43 and the youngest at 33. All of them held an MBA, where three of them raised the fund within one year after the MBA and other three searcher raised it in the range from 3 to 5 years after the MBA. Only one raised the fund after 5 years. The shortest period has been immediately after the graduation while the longest have been 9 years post-graduation. This longer time buffer sometimes has been a matter because the searchers choose another career after the MBA rather than going straightforward through the search fund, or because of agreement with the former job, or simply the need to repay the MBA's loans. Another reason is the fact that on average all of them took an MBA later compare to the American searchers that are used to do the MBA at the threshold of the thirty; the Italian searcher instead went for the MBA at 33 on average in a range that goes from 28 to 40. Following the US and International trends all of the principals in Italy are man and there is only one partnered search and one self-funded fund. In terms of professional backgrounds of the Italian principals there is a higher concentration of management consulting experience, followed by entrepreneurial activities. The private equity, investment banking and operations backgrounds occupied the third most frequent experience and lastly engineering. Almost all the Italian searchers spent the majority of their time working for international companies, abroad. One spent his all experiences between London and New York working as an IT engineer, then moved to consultancy and after the MBA in a private equity fund in London. Another searcher was engaged in management operation in France, then he moved to Australia working for one of the "Big Four" and an energy provider. Lately, moved to Switzerland in responsible for the risk management of a pharma company. Yet, someone else grown up in investment banking and private equity fields in London and after the MBA move to Mexico to raise a start-up project. There is a



searcher that started in Italy as a mechanical engineer in Ferrari, moving after some years to California where he founded a consultancy firm in the same field. There is also who started in middle east his career in strategy consultancy, coming back to Italy working for an aviation company and back in United Arab Emirates in the same industry. Last but not least, only one searcher spent almost al of his time in the same company and in the same country, JP Morgan in Italy.

These are the most common backgrounds and their details, that compare to the international or American once, seems that the principals choose this career after a similar previous job experience in a mix of operational experience with financial basis. Due to the small sample of the searcher is difficult to really infer a trend or a common path followed by the searcher, but this is aimed to show what so far are the scenarios in which the first searchers are coming from. There is only one recurring background that both in IESE and Stanford Studies is present while, up to now, in Italy is missing and its Sales. Then in US the list of job experiences is much wider due to the larger number of searcher the country faced in the past 35 years. A peculiarity is also the presence of the military background that both in Italy and internationally is not mentioned.

3.2) The Investors

As seen also for the international search funds, the fundraising phase is the most sensitive one and sometimes, especially at the beginning, it might take more months than expected. The fact that a searcher needs to reach out a lot of investors and convincing them on the viability of the model first and then on their investment proposition is not an easy task. Even harder when the market is not as developed as the American one, or completely new.

3.2.1) Entering in a New Market

The Italian principal faced different experiences during this phase, where someone succeed and someone else didn't. The first searcher approaching the Italian private investment market found an environment totally unaware of the model, at that time still unknown. He reached out several investors and from different backgrounds, from the high net worth individuals, family offices, private equity investors and also business owner with a sufficient amount of capital. Some of them were simply non-interested in investing in this asset class, others operate only with bigger opportunity (>€50 m), other again weren't comfortable with the search capital and preferred to invest in a deal already sought. However, many times he noticed the investor weren't on top of the model, on how it works, or on the financial returns that in other regions it achieved. Perhaps, the most experienced investors in the private equity panorama heard about the search fund model, and they might have read something about it. Therefore, to solve this gap, he spent a lot of time to educate investors on the new asset, sending the most relevant papers from Stanford and Harvard, in the hope to land the message and get their attention. As well in his Private Placement Memorandum there were an introduction dedicated to the explanation of the model and his main characteristics to make the investor comfortable in the reading of the investment proposition. Often, he said, the potential investors didn't even read the papers because of the language (English) or the length of the document (*The Primer* of Stanford has more than 80pages). When he pitched his investment proposition to get fundraise, he received questions that clearly shown the investors didn't read the documents or they didn't understand them. There were also a kind of fear to invest in something new, that nobody before did, afraid to lose their money even though the search capital requires a small amount to buy the option to step into the acquisition capital. Yet, he found investors that preferred to invest in the traditional Italian investments like real estate, government bonds, gold, and completely unattracted by the higher returns a search fund can achieve. Others were unattracted by the age of the searcher, too young in their opinion, and afraid that the searcher can "*run away with the money*" without having the chance to be refunded. Further, business owners sometimes lacked financial acumen to gauge the returns associated to the risks of the asset, his characteristics, or even they didn't understand the meaning of the acronyms like IRR. Of course, these are not all the cases faced by the searchers but are recurrent hurdles that came out from the interviews. There are instances where the investors have been punctual and curious, asking the right and tough questions, concern about the real crucial facts of a search fund as it can be the criteria of the target or the industry choose. Indeed, other searchers have in their investors pool a portion of Italian individuals that through their own wealth or through their investment funds trusted in the project and believed in the searcher committing a first tranche of capital.

3.2.2) Who Are the Investors?

Depending to whom a searcher is addressing the pitch there can be different type of investors. Usually an investor could be a family member, that know perfectly who you are but it might don't know what's the model and his logics are. Sometimes an investor is someone with who the searcher has worked with, owning a discrete amount of money plus a deep knowledge of the financial metrics to gauge the search fund model as well and willing accordingly to invest. Another type of investors are those who are expert on investments and probably they know also the model, but they don't know the searcher, how he/she works and his/her skills, capabilities. In this case the principal need to “sell” him/her-selves with the experiences gained in the previous jobs and the education attended as an MBA. Worst case scenario but still possible, is an investor who doesn’t know neither the model and the searcher. In this case the principal has to do a huge work explaining first the search fund model and convince the investor to believe in that opportunity, secondly, to trust in the searcher and the project planned. What is really important at the end of the process is not to have a huge number of investors, but to have indeed the right investors. The right investors are those with enough capital to commit in case of acquisition, not only for the search phase, and those who are willing to be actively involved in the processes the searcher will face. Investors are a crucial success factor for many searchers that help them to be guide and trained, supported and advised when needed, not in a daily basis. Further the investors need to be diversified both in terms of backgrounds and in terms of geography. In fact, one common things with the international searchers is that all of them tried and are trying to get different type of investors on the same pool. Different kinds of investor mean not only in terms of different experience they can bring and share to the search fund, like for example different industries of operations, different jobs, serial investor in search fund or not. What is also really important is the geographical provenience of the investors, in the sense that a portion of them need to come from abroad but a bunch of local investors is fundamental. The foreign investors are usually from US, because the model is well-developed and exist specialized fund that operate only with search funds and are useful also as a serial investor/s. But exploiting the network a principal has, or it can build, other foreign investors can join the pool bringing different skills, capabilities and point of view, and since the investors play an active role they will be extremely useful during the operation phase of the model, where the principal has to run the business acquired. The local investors instead are useful because of the deep insights they have on sectors and industries due to their decades of experience. Yet, the network they already have built up in the country with banks, other investors, entrepreneurs, advisors and professionals are all potentially useful in a search fund journey. They can help suggesting a lawyer to incorporate the fund with the right structure and terms, advice on the best industries to look for, introduce brokers, banks or even targets, coach during the operations phase and even light the way to exit the deal at the end of the holding period.

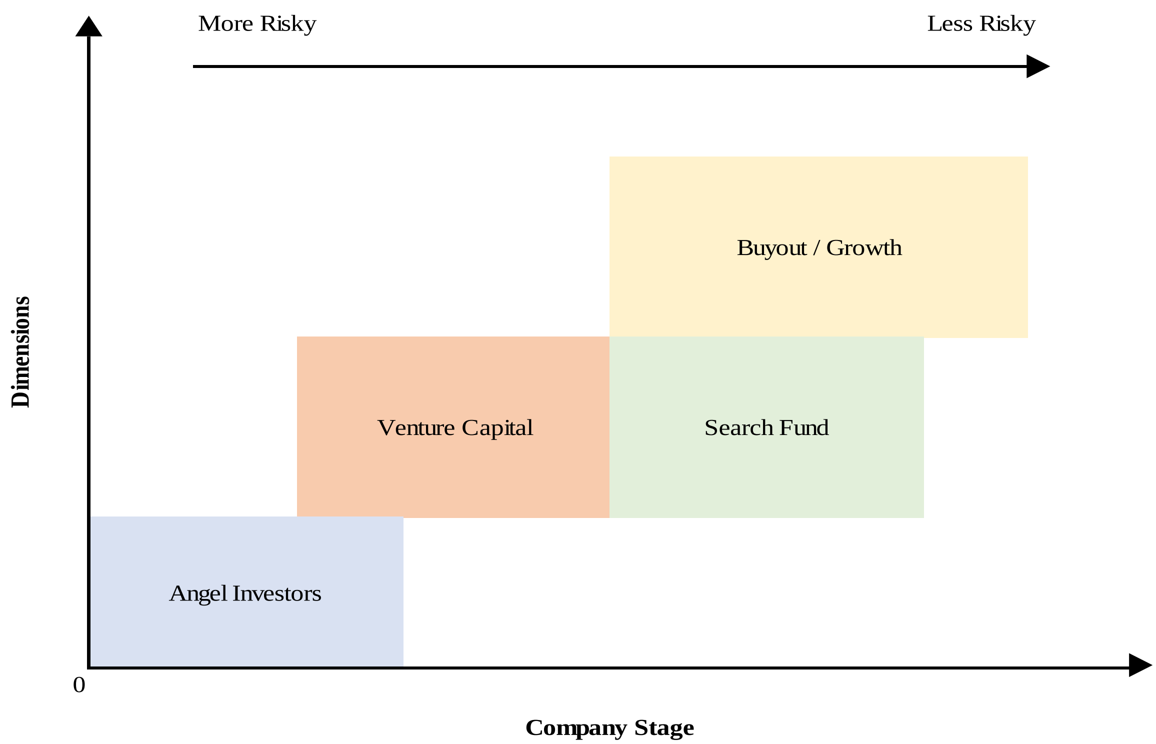
Italian searchers didn’t rely on their family to raise the capital needed, not even in their colleagues since most of them had experience while there were looking for local investors. Since the Italian market is completely new for the search fund panorama, serial investors don’t exist by definition and It’s another class of investors excluded. They targeted mainly rich individuals with a high net wealth often successful entrepreneur of big companies, CEOs or funders of investment's funds. In a Boston Consulting Group research in 2017 there is an evidence of more than 300 thousand families with a heritage above €1 million and therefore potential investor for a search fund. In fact, is not required an enormous amount of capital since the investor base range from 10 to 20 investors with a mean of 16. Is sufficient that each of them invests €30.000 in the search capital and at most €300.000 in the acquisition capital to have a stake on the equity of the acquired. Add to them there are all the family offices of the family-owned conglomerate businesses that, in order to diversify their portfolio, it might decide to opt for a search fund investment. Other frequent investors targeted are the investment fund like private equity's fund, where huge volumes of capital are collected looking for an opportunity to take. Yet, and important, are the medium enterprises business owners: medium because they probably have enough savings to invest, gathered during all the years dedicated to their activities. They are extremely important because of their networks built in their careers as well as their experiences, both priceless for a searcher that can absorb and learn a lot of insights and acumens whenever this kind of individuals will share them in the role of investors.

A first approach to get investors on the table for a serial discussion is to send out an introduction of the investment thesis with a description of the searcher. This introduction is useful to get the attention and the curiosity of the investors, followed up with a call trying to gain a first meeting where the searcher has to pitch his/her investment memorandum. A strong help for the searcher come from the network they have with the MBA's "Alumni Association" of their Business Schools. Many of the Italian principal admitted that they started from them to get the first commitments. In fact, analyzing the composition of the investors pools is noticeable that all of the funds have searcher and investors with the same MBA's School. Is extremely important to leverage this network in a scenario where the model is not well-known and the only link you have to reach out easily and with positive odds of success is indeed the network provided by the Alumni Association. This leverage is powerful with the investors since, assuming they know the model, they have to trust and believe in the person of the searcher, his/her investment proposition and his/her education. Having a tie with the same education attended is a great starting point in order to have a first chat with investors and convince them to come on board. The hardest part for the searchers in general and also in Italy is having the first investor committed to put some money on the fund. The first one trigger the others in a domini effect and vice versa, none investors committed make the others potential even more concern. In all the interviews, unlocking the first investor were the key to have the others committed and were fundamentally important having the first local investor on the pool.

Knowing that another investor engaged in the same asset in a market as Italy is, now for the model, make emotionally more relief others potential investors. As well, international (serial) investors are ready to invest as soon as some local investors are in the bunch of the search capital, independently whether the investment proposition is appealing or not. International searcher and also Italian searchers, so far, tended to have at least 30% of the investment pool local. One searcher has more Italian investor than international. From the analyses and interviews, there is no evidence that an Italian investor has committed capital in more than one Italian search fund.

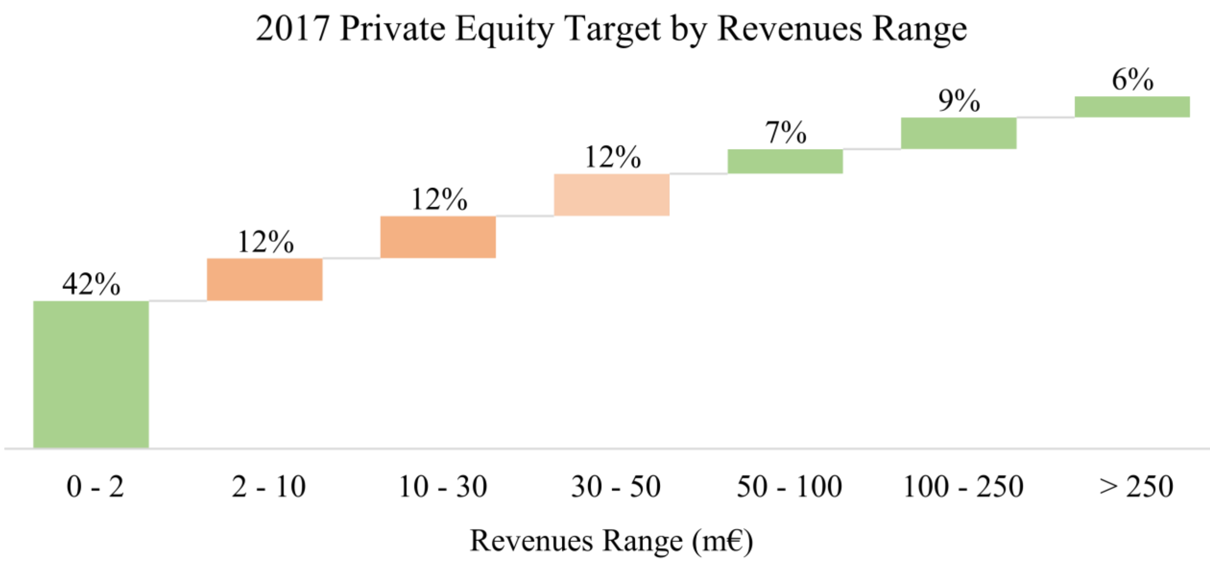
3.2.3) Invest in a Search Fund or in a Private Equity

At a first glance, a search fund investment seems to compete with the private equity (PE) activities and investors might ask them-selves where and why they should commit money in one investments rather than the other one. Indeed, there are some similarities on the two asset classes especially in the Italian market where the private equity is not as developed as the American one and the PE's funds are targeting smaller firms to acquire and manage. However, as said in the first chapter (1.1.3), the search fund model competes partially with the private equity funds and for sure does not compete against venture capital funds or business angel investors. There are several reasons to justify the differences and the first one is the size of the deals. As shown in the figure below, search fund seeks targets in the expansion phase where the company has already a structure and a positive financial record, competing for instance with the buyouts and growth private equity funds. What is



really different is the dimensions of these investments, in terms of size of the revenues. Usually private equity's funds operate on deals with revenues greater than €50 million, however in a market as Italy, where there aren't too many big companies, and the majority in the ecosystem are SMEs, those funds operate also below that threshold.

According to a 2018 research on the private equity activities in Italy, performed by AIFI[18] and PwC, 78% of the operations performed in 2017 by the private equity panorama, including all kinds of PE, have regarded small and medium size companies with revenues from € 0 to € 50 million. Among this group it's easy to see from the graph below that the bulk of the deals have been close in the venture capital and business angel investments, where the targets were on their early stage and with revenues at most close to € 2 million.



Search funds average revenues at purchase in all successful acquisition made internationally is about $ 8 million. Private equity mean capital invested in all the types of PE operations is about € 16 million with the expansion deals standing at €7.5 million and the highest peak in buyout deals of about € 38 million, minority stake in all of the cases. It's also true that private equity funds are structured in a way to managed bigger companies in a minority position. They don't spend time to acquire a business where they need to implement basic ways of working, CRM, IT systems. To a certain extent, the resources own by a private equity both financially and management skills, competences are not justified in a small firm, whereas they are likely dedicated to bigger deals. These figures are confirming the fact that even though there might be a change to compete with a

[18] AIFI: Italian association of private equity, venture capital and private debt

private equity fund in a tender to acquire a small or medium company in the Italian market, it's very rare and unlikely that it would happen.

To support this theory there is another fact that distinguish a PE to a Search Fund investment came out during the interviews. Private equity funds, usually, are meant to seek and acquire a minority position in their target and providing capital, appointing a manager in the latter's board of director trying to influence the future strategies while boosting growth and margins. A fundamental condition to make this happen is that the current CEO have to remain at the reins of the company while he/she has to deal with a new external, and not choose, director. The condition of the search fund model instead is the opposite, because is fundamental to acquire the majority of the business in order to let the searcher becoming the new CEO. As a matter of a fact, search funders are targeting those businesses with an old manger that wants to retire or simply step back from the tiring day-to-day operations. Usually the former owner is involved in a transition period for an agreed number of months and perhaps a symbolic stake on the equity, but in any case, the searcher will be the CEO and the owner will get only minority positions. Linking to the last point there is an important difference on the role of the partner operating within a private equity. In fact, the general partner will be appointed as a director and his/her role is neither passive but not even really active. Probably it will participate at the board of directors meeting and some sporadic catch up with the CEO in the meantime. His/her remuneration then is based on the performance, but also on the management fees charged over the limited partners, creating a bias between the goal of the company/general partner and limited partner. Whereas the searcher become the new general manager vesting the most active role on the company putting his/her hands on the day-to-day operations driving both ordinary and extraordinary decisions. Moreover, the compensation of the searcher is totally aligned with the interest of the owners and investors being base only on the performances of the company.

Yet, private equity investments always include several companies bonded in a portfolio of minority stakes in order to diversify the risk. Usually private equity investors cannot influence the decision in terms of which companies acquire, but investors can decide only in which fund invest according to the specific characteristics of each of them. Therefore, limited partners play a passive role, waiting that the holding period ends to get the investment reimbursed with a capital gain, with no possibility to track the investment due to the fact it goes into a pool of several investments. In a search fund instead, the investors can decide to be active or passive, as they wish tracking materially their investments and where their money have been used for. Is a fundamental feature of the model to rely on the support and coaching of the investors. Accordingly, they can directly influence the criteria of the targeted companies and even more the operations once a target has been acquired. The support of the investors is critical when an inexperienced searcher become a CEO of a company, helping him/her to guide the company, understanding the drivers and the threats. This active role of a bunch of investors have been already the key of the success to many searchers internationally and it could be the case also for the Italian ones. Besides, in some European exits, investors have been the link between the fund and the acquirer allowing the searcher to successfully exit his/her investment. There

There are differences also in terms of returns and holding periods. Even if there haven't been exits in the Italian market since the youth of the asset class we can compare he international returns with the Italian returns of the private equity investments. Usually the holding period of a search fund is longer, close to 7 years on average, but it can last also for a decade or even more while the highest performances of a private equity occurred in the third/fourth year of the investment. As seen in the second chapter, international search funds mirrored the American funds as per IRRs, with a 33.4% of aggregate IRR and a 29% excluding the top 3 exits as outliers that might mislead the calculation. In all the Private Place Memorandum and as a standard for all the search funds there is a hurdle rate for investor of about 25% below which the searcher will not have the right on the last vesting equity rata. According to the study performed by AIFI and KPMG in 2018, the pooled 20yrs horizon IRR for the private equity market in Italy for the period 1997 – 2017 is 20.0%. However, a closer look at the data, display that since 2014 the returns on the Italian PE are decreasing year by year, from a polled IRR of 19.4% in 2014 to the 12.5% last year.

3.3) The Targets

The third sphere of a search fund model is the target, or as called in the metaphor of a horse race, the horse. In the traditional model as meant by Grousbeck back in the '80s the firm to acquire plays a strategic role in the success of the funds. In addition, according to a group of investors, the target is the most important driver in the success of the model, and usually the famous Buffet's quote came out: "W*hen a great manager met a bad business, is the reputation of the latter that doesn't change*". During the first search fund Conference Grousbeck said that the parallelism of this quote is also true if applied to a searcher, meaning that if a talented inexperienced individual meet with a great business, probably the reputation of the searcher will increase.

In an effort to understand whether the Italian market of small and medium size companies are feasible for a search fund model, it has been conducted a research obtaining the data from different sources. The first source used is CERVED that is an information provider generating scheduled reports divided by geographic zones about the small and medium companies market. Another source is the "Osservatorio AUB" a pool of three entities (the Italian association of family owned business – AIDAF; UniCredit; Bocconi University) bounded together with the aim to track the Italian family businesses, their characteristics, and evolutions. Then AIDA, an on-line database collecting all the income statements and balance sheets of the company that must deposits this document in Italy. It has been used qualitative information from the first two sources, while the third, AIDA, is has been useful to draw a quantitative portrait of the Italian market of SMEs. Through this database, in fact, it's possible to map the potential targets for a search fund that would seek to acquire, screening the data applying the same criteria used by the searcher and accordingly to the search fund model theory.

Those criteria are related first to the industry and then to the specific company. In particular as regard the industry, it has to have a positive trend of growth in the last three years, profitable and fragmented, with a lot of players. Is important that the industry won't be too risky for the searcher without regulatory restriction or fast changes, easy to finance and with a long product lifecycle. As regard the company itself instead, it has to be a small medium size company between 2 to 50 million in revenues, at least 10% of margin, a positive trend of growth in the last period and with a sound net financial position (NFP). A feature of the search fund's targets is the recurrent revenue stream and the absence of customer concentration.

It has been used these criteria to analyze the Italian ecosystem and find out qualitative and quantitative information on the potential target a searcher might find in Italy. As of June 30, 2018, the AIDA database has the 2016 firm's data, and it has been applied 4 filters: revenues between € 2 million and € 50 million, positive trend in revenues, EBITDA greater than € 500.000, positive income. The outcome of this analysis highlighted 14970 companies fulfilling those criteria mentioned above, in the Italian ecosystem. Further, through the outcome of AIDA, it has been conducted an analysis to understand if the Italian market is a feasible playground for the search fund model, categorizing the companies accordingly to some relevant financial metrics.

Abruzzo	1,3%
Basilicata	0,4%
Calabria	0,7%
Campania	4,8%
Emilia-Romagna	11,9%
Friuli-Venezia Giulia	2,3%
Lazio	6,1%
Liguria	1,7%
Lombardia	29,9%
Marche	2,8%
Molise	0,1%
Piemonte	7,5%
Puglia	2,3%
Sardegna	0,7%
Sicilia	1,9%
Toscana	6,7%
Trentino-Alto Adige	3,5%
Umbria	1,0%
Valle d'Aosta	0,1%
Veneto	14,1%
Tot	**100%**

The geographic distribution confirmed the location of the bulk of the companies being in the top three regions such as Lombardia, Veneto and Emilia Romagna. Respectively they count for the 29.9%, 14.1%, and 11.9% of the total sample of companies, for a cumulative result equal to 56.0%. In a bigger picture, 71.1% of the companies resides in the North of the country, 18.1% in the center and 10.8% in the south. These figures clarify the choice of the searcher to locate their offices in almost all of the cases in the north, close to the majority of the potential target. Then, in terms of industries, according to the macro categories Ateco 2007, manufacturing is the most relevant one representing the 42.9% of the total basket, followed by distribution (20.8%) and business services (7.0%). The industries historically likely to be targeted by the searchers like healthcare and IT/Tech, are not massively present leading to less potential companies to acquire, mainly due to the structure of the economy, historically kingdom of the manufacturing sector.

	North	Center	South	**Tot**
Agriculture	0,7%	0,2%	0,3%	**1,2%**
Business Services	4,9%	1,6%	0,5%	**7,0%**
Construction	3,4%	1,3%	0,9%	**5,6%**
Distribution	14,3%	3,7%	2,8%	**20,8%**
Education	0,2%	0,1%	0,0%	**0,3%**
Energy	0,6%	0,1%	0,1%	**0,9%**
Financial Services	0,5%	0,2%	0,0%	**0,7%**
Healthcare	1,1%	0,4%	0,6%	**2,1%**
IT/Tech	3,0%	0,7%	0,2%	**3,9%**
Logistic	2,6%	0,8%	1,1%	**4,5%**
Manufactoring	33,2%	6,8%	2,9%	**42,9%**
Mining	0,1%	0,1%	0,0%	**0,3%**
Other	3,6%	1,2%	1,1%	**5,9%**
Real Estate	1,9%	0,5%	0,2%	**2,6%**
TLC	0,9%	0,4%	0,1%	**1,3%**
Tot	**71,1%**	**18,1%**	**10,8%**	**100,0%**

Another measure to take into consideration is the size of the targets, in terms of revenues. The search fund model targets companies in between 2 and 50 € million revenues but it's also interesting to show how the sample in Italy is distributed. The sample has been divided in 5 ranges, the first one looking at companies with revenues from 2 to 5 € million, the second with sales from 5 to 10 million, and the following three in multiple of ten million. The outcome is that among the sample the majority of the companies, almost one third, are in the range 5-10 € million while one fourth of the targets are in the ranges 2-5million and € 10-20 million respectively. Only around 20% are generating sales for more than €20 million, and only 9% more than €30 million. If the revenues give and idea of the size of the companies, the EBITDA and the Profit give a sense of their profitability. In a similar way the EBITDA margin (EBITDA on Sales) have been split in categories, below 15%, from 15 to 20%, 20-25%, 25-30%, 30-40% and above 40%. The data shows how the average ratio for all the companies is 12.4% and more than a half of the sample have an EBTDA margin below 15% - 30% below 10% and 23% between 10 and 15%. Only 16% of them have an operating margin between 15 and 20% while another 11% seats on the 20-25% range. However, more than a fourth of the targets overcome the 25% of EBITDA margin.

		EBITDA margin						
		<15%	15-20%	20-25%	25-30%	30-40%	>40%	**Tot**
SIZE	2-5M	4,2%	5,7%	5,1%	3,5%	3,9%	3,6%	**25,9%**
	5-10M	15,8%	5,1%	2,9%	1,7%	1,7%	1,6%	**28,8%**
	10-20M	17,2%	3,1%	1,9%	0,9%	0,8%	0,9%	**24,7%**
	20-30M	8,1%	1,2%	0,6%	0,4%	0,3%	0,2%	**10,8%**
	30-50M	7,3%	1,0%	0,6%	0,3%	0,3%	0,2%	**9,7%**
	Tot	**52,7%**	**16,1%**	**11,0%**	**6,8%**	**6,9%**	**6,5%**	**100,0%**

Nevertheless, is not easy to gauge the profitability of a company just focusing on the size and the EBITDA margin; every company plays in a different industry and in a different sector, competing with other companies with different scale and size. Therefore, each evaluation has to be weighted accordingly to the specific case under investigation is reasonable to think that a financial service business has a higher margin compare to a manufacturing or distribution company where the cost of good sold have a bigger impact on the P&L statement. In order to give a better insight of the sample taken into consideration, an operating margin by industry analysis has been conducted and the outcome is shown below. In the table it's easily recognizable the distribution of operating margins within each industry to have a better comparison taking into consideration the characteristics of each of them. Accordingly, industries like distribution and logistics has an higher concentration of companies in the lower ranges while real estate and financial services have the bulk of their companies in the upper ranges.

EBITDA	<10%	10-15%	15-20%	20-25%	25-30%	30-40%	>40%
Agriculture	24,9%	13,8%	17,1%	7,7%	12,7%	12,7%	11,0%
Business Services	22,4%	18,2%	13,9%	12,2%	7,4%	11,0%	14,9%
Construction	24,6%	22,1%	16,8%	13,7%	7,4%	7,4%	8,0%
Distribution	53,1%	22,0%	11,9%	6,4%	2,9%	2,3%	1,4%
Education	9,1%	18,2%	11,4%	25,0%	11,4%	13,6%	11,4%
Energy	18,0%	9,4%	4,7%	5,5%	6,3%	11,7%	44,5%
Financial Services	9,9%	12,6%	8,1%	13,5%	9,0%	21,6%	25,2%
Healthcare	15,2%	23,2%	18,4%	17,1%	13,3%	8,3%	4,4%
IT/Tech	24,0%	19,0%	17,8%	13,5%	8,0%	9,7%	8,0%
Logistic	31,1%	24,1%	14,0%	10,1%	6,8%	7,1%	6,7%
Manufactoring	26,8%	27,6%	19,5%	11,8%	7,0%	5,2%	2,1%
Mining	7,1%	14,3%	23,8%	21,4%	7,1%	14,3%	11,9%
Other	13,4%	12,9%	13,0%	15,6%	12,9%	20,1%	12,0%
Real Estate	4,8%	5,6%	8,4%	6,9%	6,1%	10,7%	57,4%
TLC	17,9%	15,3%	18,9%	15,3%	11,2%	10,7%	10,7%

To better evaluate each target, it should be done a proper comparison with other companies in the same sector, using a benchmark approach.in this way would be easier for the searcher to individualize the best in class among their competitors.

The same logic has been applied to compare the profitability of the companies in the sample. It has been linked the final profit in percentage of the revenues and club the firms according to different ranges. The data shows how one third of the companies achieved profits below 5% and another 30% in a range between 5 and 10%. Only 10% of the sample generated profit for more than 20%. Seems to be also a relation between size and profit, in particular smaller firms tend to perform better than their bigger rivals. In fact, proportionally more small companies are under the higher profit ratio umbrellas while the bigger ones seem to be less profitable.

Profit / Size	2-5M	5-10M	10-20M	20-30M	30-50M	Tot
<5%	1,0%	7,4%	11,8%	6,1%	5,8%	32,1%
from 5 to 10%	6,8%	11,8%	7,6%	2,8%	2,2%	31,3%
from 10 to 15%	7,6%	5,1%	3,0%	1,1%	1,0%	17,8%
from 15 to 20%	4,8%	2,1%	1,3%	0,4%	0,3%	8,9%
from 20 to 25%	2,5%	1,0%	0,4%	0,2%	0,2%	4,2%
from 25 to 30%	1,1%	0,5%	0,3%	0,1%	0,1%	2,1%
from 30 to 40%	1,1%	0,4%	0,2%	0,1%	0,1%	1,9%
from 40 to 50%	0,4%	0,1%	0,1%	0,0%	0,0%	0,7%
>50%	0,6%	0,3%	0,1%	0,1%	0,0%	1,0%
Tot	25,9%	28,8%	24,7%	10,8%	9,7%	100,0%

Again, also for the profit ratio is reasonable compare companies in the same sector and pick up those with above average profit. Different industries and sectors have different amount of investment and level of debt leading to a different profitability.

Industries/Profit	<5%	5 -10%	10-15%	15-20%	20-25%	25-30%	30-40%	40-50%	>50%
Agriculture	29,3%	26,0%	14,4%	11,0%	7,2%	5,5%	3,3%	1,7%	1,7%
Business Services	25,5%	22,9%	19,5%	10,0%	6,8%	3,8%	4,3%	2,8%	4,4%
Construction	24,5%	31,4%	19,8%	12,2%	4,8%	2,5%	2,8%	0,5%	1,6%
Distribution	48,5%	30,9%	12,8%	4,4%	1,8%	0,8%	0,5%	0,2%	0,2%
Education	18,2%	11,4%	29,5%	18,2%	9,1%	4,5%	6,8%	2,3%	0,0%
Energy	21,9%	18,0%	18,0%	12,5%	7,0%	4,7%	7,0%	4,7%	6,3%
Financial Services	8,1%	18,0%	13,5%	12,6%	9,0%	10,8%	15,3%	2,7%	9,9%
Healthcare	21,0%	30,8%	20,6%	14,6%	5,7%	2,2%	2,9%	1,6%	0,6%
IT/Tech	23,2%	28,0%	19,6%	11,4%	7,6%	4,0%	4,0%	1,2%	1,0%
Logistic	33,0%	31,1%	19,8%	8,6%	2,8%	2,4%	1,3%	0,3%	0,6%
Manufactoring	31,7%	35,2%	18,3%	8,9%	3,3%	1,3%	1,0%	0,2%	0,2%
Mining	16,7%	28,6%	31,0%	9,5%	7,1%	2,4%	0,0%	4,8%	0,0%
Other	20,8%	31,2%	21,1%	12,7%	6,3%	3,3%	2,9%	0,4%	1,2%
Real Estate	9,7%	12,5%	21,2%	15,1%	13,8%	6,4%	8,2%	4,8%	8,4%
TLC	22,4%	25,5%	25,5%	11,2%	7,7%	3,6%	1,5%	1,5%	1,0%

Industries having high EBITDA tend to maintain their profit to a higher level even tough, many of them are not able to retain it, comparing the number of companies with high EBITDA and the number of same companies with high profit as well. Looking at the Energy industry for example, while 44.5% of firms have above 40% operating margin, only 18% of them have above 30% profit. Same story for the real estate companies where 57% have more tan 40% EBITDA but only 21% achieved high profit.

Yet, another measure stressed by the analyses has been the level of debt the companies used to finance their operations, and in particular if they are able to repay these obligations or not. As mentioned several times, the search fund model is also avoiding situation of distress firms and turnaround, since the competences required to manage it are far away from the experience of a young talented CEO, and the investment would be too risky. Two financial measures have been adopted, the first looking at the debt ratio to understand how much debt those companies have. The second one is the net financial position (NFP), calculated as short and medium-term debts minus the cash and cash equivalent available, to evaluate the solvability of the firms, especially when related to the EBITDA (NFP/EBITDA).

In a first attempt it has been related the level of debt with the size of the companies to see whether there is a relationship between the two variables. The data reveals how the 54% of the companies in the sample have less than 30% of debt in their balance sheet, with a close ratio in all the size analyzed, above 50%. 25% of the firms have an amount of debt that goes from 30 to 60% of the total, while a 15% of companies are highly leveraged, owning more than 80% of the source of financing in debt. Overall then, more than one fourth of the companies in the sample are relying in debt as a first source of financing, preferring their own capital and profit reinvestments. On the other side, only 15% of them seems that are heavily using the debt as a first source. Yet, there is a significant 20% of companies in the ranges €2-5 million and €5-10 million that are highly leveraged, above 80%, probably due to an expansion phase and therefore using more debt.

Size/Debt	<30%	30-50%	50-60%	60-80%	>80%
2-5M	53,9%	9,8%	5,6%	2,8%	27,9%
5-10M	52,4%	13,1%	8,6%	4,0%	21,9%
10-20M	57,1%	18,4%	12,7%	6,7%	5,1%
20-30M	53,4%	19,1%	15,2%	8,8%	3,5%
30-50M	51,5%	20,6%	16,3%	9,1%	2,5%
Tot	54,0%	14,9%	10,3%	5,4%	15,4%

Changing the lens of the focus and trying to link the industries to the level of debt, other useful information can be inferred. For example, industries like real estate, agriculture, construction and energy tends to have a higher rate of debt, while IT/Tech and business services rely more on internal sources of financing.

Industries/Debt	<30%	30-50%	50-60%	60-80%	>80%
Agriculture	39,2%	17,7%	14,9%	11,0%	17,1%
Business Services	63,1%	11,4%	6,9%	3,4%	15,2%
Construction	47,6%	13,4%	11,3%	6,1%	21,6%
Distribution	54,4%	14,0%	11,3%	6,5%	13,8%
Education	61,4%	13,6%	4,5%	2,3%	18,2%
Energy	44,5%	10,9%	10,9%	12,5%	21,1%
Financial Services	77,5%	2,7%	1,8%	0,0%	18,0%
Healthcare	55,6%	15,2%	10,2%	4,8%	14,3%
IT/Tech	67,1%	9,9%	6,1%	3,1%	13,8%
Logistic	59,2%	15,5%	9,1%	3,9%	12,4%
Manufactoring	52,2%	16,4%	10,9%	5,3%	15,2%
Mining	52,4%	19,0%	4,8%	4,8%	19,0%
Other	48,8%	17,4%	10,3%	5,8%	17,6%
Real Estate	49,0%	14,8%	11,5%	4,6%	20,2%
TLC	64,3%	14,3%	5,6%	3,6%	12,2%

A similar approach it has been used to the net financial position measure, where it calculates whether a company is able to pay back the interest and the principal of the debts owned, using the operating profits generated with the ordinary activities, the EBITDA. The measure is calculated as the total debts minus the cash and cash equivalents owned by the company. The measure can have a negative sign, meaning that it owns more liquidity than debts and therefore able to repay the obligations with no problem of solvability. Further, it has been related the NFP with the EBITDA as a ratio to understand how the core vale generated by the company through the ordinary business, are able to cover the amount of debt. Higher the number, the longer it takes to generate enough value to solve the obligations.

The data shows how 47% of the companies in the sample have a negative net financial position, meaning they have more cash than debts, a really positive sign of solvability and good shape of the firms. Only 5% of the sample registered a NFP over EBITDA higher than 5, meaning that it take more than 5 years of core profit to repay the actual level of debts. 11% are in the range 2to5 times the EBITDA and 23% in the range that goes from zero to 2 and almost 14% of the sample have not disclose their data on the net financial position situation.

NFP on EBITDA/Size	2-5M	5-10M	10-20M	20-30M	30-50M	Tot
< - 5	0,3%	0,3%	0,3%	0,1%	0,1%	**1,0%**
from -5 to -2	1,6%	2,1%	1,9%	0,7%	0,5%	**6,9%**
from -2 to 0	10,5%	10,7%	10,0%	4,0%	3,6%	**39,0%**
from 0 to 2	4,4%	6,5%	6,7%	3,0%	2,5%	**23,2%**
from 2 to 5	1,5%	2,5%	3,8%	2,0%	1,9%	**11,7%**
from 5 to 10	0,6%	0,7%	1,0%	0,8%	0,8%	**3,9%**
> 10	0,2%	0,2%	0,2%	0,1%	0,2%	**0,8%**
N/D	6,8%	5,9%	0,8%	0,1%	0,0%	**13,6%**

Then, a comparison between industries have been done as well, showing which ones are likely to have a higher net financial position. Among all of them, real estate and agriculture showed to have a higher NFP compare to the others, while financial services, IT/Tech, real estate and education have the highest grade of solvability having the majority of the companies with negative NFP.

Industries	< - 5	from -5 to -2	from -2 to 0	from 0 to 2	from 2 to 5	from 5 to 10	> 10	N/D
Agriculture	0,0%	2,8%	22,1%	25,4%	23,2%	9,4%	1,1%	16,0%
Business Services	1,9%	9,1%	45,9%	19,2%	6,9%	1,7%	1,0%	14,2%
Construction	1,0%	5,8%	36,7%	20,1%	11,5%	4,9%	2,3%	17,7%
Distribution	1,0%	6,5%	39,2%	22,5%	13,2%	4,9%	0,9%	11,7%
Education	0,0%	9,1%	50,0%	18,2%	4,5%	0,0%	0,0%	18,2%
Energy	1,6%	3,1%	32,8%	21,9%	25,0%	8,6%	0,0%	7,0%
Financial Services	4,5%	18,9%	49,5%	5,4%	1,8%	0,9%	1,8%	17,1%
Healthcare	1,9%	7,0%	42,5%	22,5%	10,8%	2,9%	1,0%	11,4%
IT/Tech	1,7%	9,2%	49,8%	19,2%	6,4%	0,7%	0,2%	12,8%
Logistic	1,0%	7,4%	41,1%	26,8%	10,0%	2,7%	0,1%	10,9%
Manufactoring	0,8%	7,2%	37,6%	24,9%	11,6%	3,2%	0,3%	14,3%
Mining	0,0%	4,8%	38,1%	26,2%	7,1%	2,4%	2,4%	19,0%
Other	0,9%	3,6%	37,6%	24,5%	13,6%	4,7%	0,9%	14,2%
Real Estate	1,0%	3,6%	25,8%	18,4%	18,4%	13,0%	5,6%	14,3%
TLC	2,6%	5,1%	52,0%	22,4%	5,6%	1,0%	0,0%	11,2%

Another interesting analysis has been done comparing the level of the debt owned by the sample with the solvability that the companies showed. In the chart below than it's possible to understand if the level of debt a company has is sustainable and whether it's possible to easily reimburse the debts with the operating profit generated.

NFP on EBITDA / Debt Ratio	<30%	30-50%	50-60%	60-80%	>80%	Tot
< - 5	1,0%	0,0%	0,0%	0,0%	0,0%	**1,0%**
from -5 to -2	6,6%	0,2%	0,0%	0,0%	0,0%	**6,9%**
from -2 to 0	36,2%	2,3%	0,4%	0,0%	0,0%	**39,0%**
from 0 to 2	9,1%	8,7%	4,2%	1,0%	0,1%	**23,2%**
from 2 to 5	0,8%	2,9%	4,4%	2,9%	0,7%	**11,7%**
from 5 to 10	0,1%	0,7%	1,1%	1,2%	0,7%	**3,9%**
> 10	0,0%	0,1%	0,2%	0,2%	0,3%	**0,8%**
N/D	-	-	-	-	-	**13,6%**

The companies in the sample have overall shown a trend to repay quite easily the debt owned when the latter is below 50% of the total sources of financing, whereas with the increase of the leverage increase as well the NFP/EBITDA ratio, meaning that companies with more debt are less solvable. In fat there are many companies with low debt ratio and negative net financial position and vice versa, companies with high leverage and positive NFP with also over 10 times the EBITDA.

It's also important and extremely relevant to understand where the owner is willing to sell the company, and in particular with the case of the search fund investments, the owners has to sell for non-business reasons. That means that the owner sells the company for personal reasons, he/she needs liquidity or, as it is in the majority of the cases, a succession plan is missing, and he/she want to find a replacement to the continuity of the company. Usually this issue comes right before the retirement of the owner, and therefore the target company for a searcher needs to have an old manger. With this aim, it has been conducted a deeper analysis on the average age of the CEOs of the filtered companies, divided by region and split by 4 main ranges: under 30, from 30 to 40, from 40 to 50, from 50 to 55, from 55 to 60, from 60 to 70 and over 70 years old. According to the sample of available age per CEOs the Italian average age of the CEOs is about 55 years old, with the chunk of them in the range 60-70 (22.5%) followed by over 70 (19%), and only 5.5% of the CEOs are under 40.

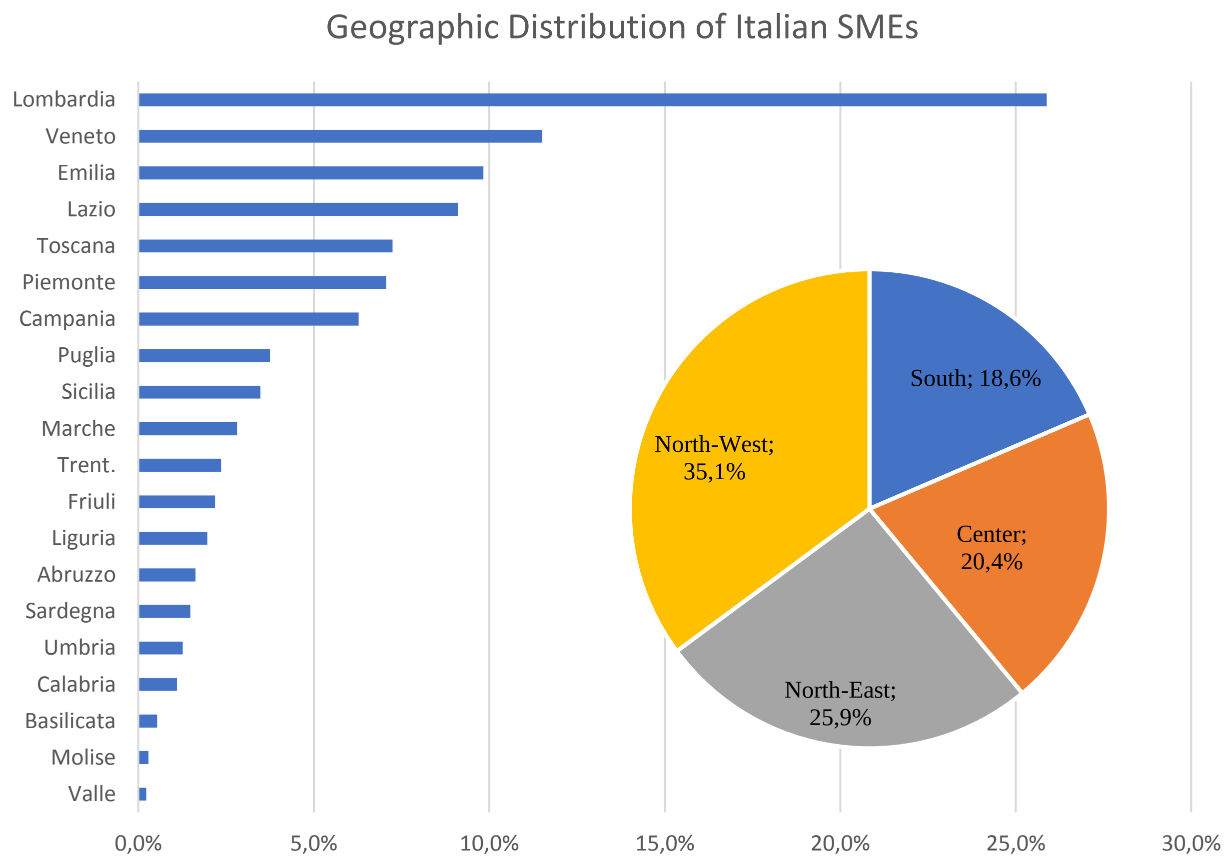
Age	
Under 30	0,7%
30-40	4,6%
40-50	18,6%
50-55	17,9%
55-60	14,8%
60-70	22,5%
Over 70	19,0%
Tot	**100,0%**

The fact that many owners are heading to the retirement in the next years is a common phenomenon over all Italy, second oldest country in the world after Japan, without specific regional cases as sown in the chart below.

	Under 30	30-40	40-50	50-55	55-60	Over 60	Over 70
Agriculture	0,6%	8,3%	19,3%	12,7%	21,0%	18,8%	18,2%
Business Services	1,3%	6,0%	25,4%	20,0%	13,4%	21,1%	10,7%
Construction	1,0%	6,8%	20,3%	20,9%	12,9%	21,2%	14,1%
Distribution	1,1%	6,1%	19,5%	18,3%	15,6%	21,1%	16,2%
Education	2,3%	6,8%	25,0%	22,7%	9,1%	15,9%	11,4%
Energy	0,8%	5,5%	32,0%	20,3%	12,5%	18,8%	9,4%
Financial Services	0,0%	3,6%	23,4%	21,6%	12,6%	21,6%	11,7%
Healthcare	1,3%	6,3%	15,9%	18,7%	15,2%	24,1%	15,9%
IT/Tech	0,3%	2,2%	21,1%	23,2%	15,6%	24,0%	10,7%
Logistic	1,5%	7,1%	19,9%	17,7%	17,3%	19,6%	15,5%
Manufactoring	0,2%	3,1%	15,9%	16,6%	14,5%	24,4%	23,8%
Mining	0,0%	2,4%	11,9%	19,0%	7,1%	28,6%	28,6%
Other	0,9%	5,7%	19,4%	17,9%	15,7%	20,1%	18,9%
Real Estate	0,5%	3,3%	17,1%	18,4%	10,5%	19,9%	26,5%
TLC	0,0%	2,6%	25,0%	16,8%	19,9%	23,0%	10,2%

Also, in terms of industries, as shown above, there are those with an older management and those with a younger one. Overall, manufacturing and mining are the industries with the bigger concentration of old top managers, over 60, whereas energy, business services and education are mostly populated by young people, under 50.

In a 2017 report promoted by the “Osservatiorio AUB” on the family businesses with revenues above 20 million in Italy, more than 80% of the total firms in the country, it was warned two interesting facts, correlated each other. The first one is that the companies in the sample have 22% of the leadership older than 70 and another 24% beyond the 60 years old, while only the 5% were younger than 40. The second fact is that the performances of the companies ran by older leadership achieved lower returns in terms of profitability compare to the average (around -1.0%), and the figures are worse if compare to the younger generations of leadership (around -2.0%). Yet, the same Study reported as almost 2% of the family business in Italy incurred in a generational transition every year leading, after the third generation coming in to a decrease of the performances. Nowadays, most of the companies are in their second-generation phase, 48.8%. In the same paragraph, is stated as a non-family member in the leadership enhance the performances after the first year of management. According to CERVED instead, there were 145.424 small and medium enterprises at the end of 2016 distributed mainly in the north 61% (north-west 35%, north east 26%), center 20% and the south plus the islands 19% with a positive trend of growth in the last 3years. The regions where there is the highest concentration of firms are located in the northern part of Italy, and in particular they are Lombardia, Veneto, Emilia Romagna that combined counts



for the 47% of the total.

As shown from the interviews, many searchers decided to locate their offices in the north of Italy also because allows them to be closer to the target companies in case they would need to visit those targets. It is also important to identify in which industries those companies are operating and compare it with the most targeted industries by the other searcher internationally.

The Italian SME ecosystem present a concentration of businesses in three main industries like business services, distribution and construction, accounting for 55% of the total. The other industries count for a smaller portion close to 5% each with a high concentration of fashion companies, TLCs, logistics, metal. Following the criteria aforementioned perhaps the construction and metal industries are not the best match for a search fund, due to their high capital requirements and CAPEX needed to sustain the operation.

3.4) Qualitative Data from Interviews

As said at the beginning of the chapter, there are 6 operating search funds in Italy as of May 31, 2018. Among them, there is no information available about one fund whereas throughout the interviews it has been possible to gather quantitative and qualitative information on the different phases the other searchers faced. All the funds are now in the second or third phase of their all process, scouting targets or performing a thorough due diligence to gauge whether the company selected is the right one to buy and manage or not. There are no operating companies yet, even though a couple of funds might close an acquisition within the year end being at the average period of the search phase, 26 months. Therefore, other time, perhaps more than 5 years, is needed to see the first exits occurred since the model is completely new in the Italian ecosystem with the first search fund raised in 2016.

3.4.1) Fundraising

When it comes to fundraise for the first time in a new country, where the asset class is not known as much as abroad, it's always harder than expected. All the searchers interviewed admitted that the fundraise phase have been a tough journey made of a lot of "*no*", mainly from the Italian investors. Consequently, it slowed down all the process even tough the international investors were ready to finance the fund, as soon as the local investors would have been on board. In fact, a searcher spent more than one year trying to convince Italian investors on the model first and then on himself, to get fundraise, with a bunch of international investors already committed. But, unfortunately, he gave up since it was wasting too much time, and he decided to self-funded his search. Another searcher, Guido, spent 8 months to close the process and set up the fund, he leveraged his network within INSEAD to convince Italian individuals to give him an opportunity to present in front of them. Wasn't easy, he said, however once the first investor is willing to invest it can be used as a trigger to others and it creates a traction driving the fundraise process in an easier road. With this strategy, now, Guido is supported by a perfect mix of Italian and international investors. His Italian Investors who decided to be publicly shown (not all of them did) are: Roberto Italia, Marco Ariello, ACM, Paolo Senes, Paolo Bragheri, FinRoss. In this pool many investors are individual with managerial experience in different industries, and also two private equity funds investors. The international investors are mixed as well with both individual, a private equity fund and a serial fund specialized in search fund. The story of Tommaso Romanelli is slightly different.

He graduated at IE in Madrid and after that he decided with a German partner to raise a search fund in Spain. They did all the pitches needed and collected all the investors and money necessary. Right before to sign the contracts, an issue came out for his partner, obliging him to come back to Germany and giving up the search fund experience. Tommaso decided then to continue the search fund, with the investor still on board, but to move the focus in Italy, at the time unexplored. The investors asked him to find local investors and since he had already committed a bunch of people, has not been that much difficult for him to find local Italian investors. Then, it took him a couple of months to close the gap with local investors, while he admitted the common hurdles faced by the Spanish searcher while fundraising the first time. As seen before, Magnolia Partners is a self-funded fund and therefore is not possible to properly compare it with the other funds. Due to the experience gained and the fact that they are using softer criteria while looking for targets, they decided to do not fundraise the search capital but inform the investors when a deal comes.

Despite the small sample that doesn’t allow to infer trends or standards, is still possible to analyze the figures of the Italian searchers in terms of numbers. To fundraise the search from the preparation of the PPM to the incorporation of the fund, it took on average 8 months, with the longest period at over one year and the shorter in a couple of months. The mean number of investors is 17/18, with Patria Private Capital having 17 investors, Tre Cime Capital 18. The composition of the investor’s pool is mixed in all the funds: the international investors are often more than the local and they are mostly coming from US, Spain, and Germany. However other investors come from Russia, Belgium and other European nations. The proportion of Italian investors then, goes from a 20% of the pool to a half with on average 40% of their components made by local investor.

Usually, as it happens in other countries, each search capital ticket is about € 30.000. The searcher highlighted how often during their pitches many Italian investors asked to buy half of a ticket in order to invest and being part of the project, but without fully committing and risk less. In fact, one of the reasons why Italian investor are hard to convince is the risk adversity they have compare to other business environment, confirmed by the scarce propensity to invest in a new asset class like the search fund, even though, the ticket is not too expensive. Besides that, the searcher who closed the fundraise process have gathered € 375.000 on average, Guido € 360.000, Tommaso € 390.000.

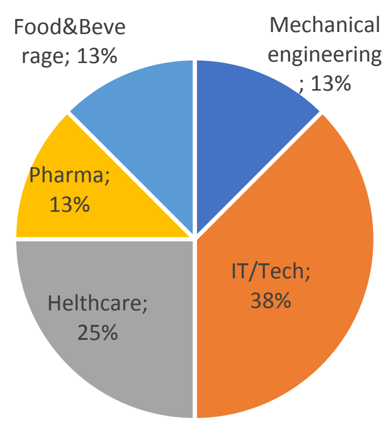
These figures are in line with the American and the other international search funds trend where the average search capital per fund is above $ 400.000, that transformed in euro become around €390.000. A closer look at the total amount raised per searcher, however, in this first Italian attempt the mean amount collected seems to be lower than the other funds abroad, standing at € 300.000 while the average American one is about $ 398.000, and the international one is $ 380.000

3.4.2) Search and Acquisition

Throughout the interviews emerged a common way of working, shared also with the majority of the European searchers interviewed. Searchers engaged in creating their deal flow used as a first approach the brokers, to have a basket of potential targets and to practice on how to screen and what to focus on to evaluate properly a firm. In a second moment, immediately after searchers started to source deals by their own. In Italy is quite easy to get information on the financials of a company, as well as sensitive information like names and age of the managers for the small and medium private companies. Searchers use the common database (CERVED, AIDA, LEANUS, BLOOMBERG …) to create their own deal flow and narrowing the research, saving a lot of time and effort. In fact, they can apply their criteria, in the industries that are on their scope to download a full list of companies with all the necessary information to decide whether move forward contacting them, or not. With this method searchers, up to May 31, 2018, have reviewed from 400 to 600 companies, with a high response rate in some cases. Tommaso has got a 36% of response rate, Christian around the 20%, while Guido for example close to 10%. Magnolia partners with Nevio and Peter screened a greater number of companies, and in the pipeline, they have more companies than time to review them. Contacting the owners, or the firms in general, is important to understand whether the owner is thinking to sell the company or not. Is important as well understanding id the owner is interested or not to the project. Therefore, searchers send out letters, emails and calls to get the owners involved and perhaps scheduling a meeting. There is no evidence of a preferred method that works best in the Italian market, and each searcher used the one he was more comfortable with. Searchers obtained in this way the possibility to visit the companies and meet the owners physically gathering precious information, above all, qualitative ones. All principals visited more than 50 companies, with Tommaso having the record of 72 firms visited, to get involved in serious discussion with at most a handful of them.

No one of the Italian searchers have bought a company, yet, but two of the funds are in advance negotiation with a potential deal. One fund has not been raised yet because the searcher is pitching his investment project to investors in this months, but the other funds are currently seeking to acquire a business. Since no one acquired it’s also meaningless create an average of time spent to search and acquire a business. Accordingly, it has been analyzed individually each search fund with his specific records. Tommaso, the older searcher is looking for a company for 28 months quite far from the average of 16 and 19 months of the international and American funds. Nowadays he is in a due diligence process with a target and he hope to close the acquisition soon. Different story for Guido, searching for 10 months and already in a due diligence process as well thanks to a brokered deal. Christian is still searching since beginning 2017 with some interesting deal in the pipeline but no one serious discussion in place. Similar situation for Nevio and Peter where they are visiting companies, gauging them and preparing some intent of interests while having two interesting deal in their sight. It's also true that they are the latest search funds raised and they are in the middle of the search phase, therefore it would be an exception if they are already in a negotiation process or even acquiring a firm.

As concern the geography and the industries targeted by the Italian searchers there is trend to seek opportunities in a opportunistic way. Regarding the geography, most of them selected the north of Italy because, as seen before, is where the majority of the SMEs are. Yet, Christian choose a narrower focus targeting only in the three main regions, while Tommaso at the beginning of the search was focus on all the country with no preferences. In terms of industries instead, a consideration must be done. while preparing the PPM for the investors, is required to select three industries where to focus on and present them to the investors with some analysis to support the thesis. But is common in all the search funds that those industries might change along the processes for several reasons and a searcher might acquire a company in a totally different and unmentioned industry. Italian searchers selected their three industries accordingly to their past experience. In particular pharma has been an industry where Guido work on and one of his three choices, the same for example happened to Christian where he chooses mechanical engineering, field where he worked for a long time. However, the other two choices have been done opportunistically because search funds investors like it and because a lot of deals are done in those industries successfully. In particular healthcare and IT/Tech have been nominates almost in all the cases. As afore mentioned, IT and Healthcare have been the most common industries selected by the American searchers and in those industries the best exits occurred. A similar ambition seems to lead international and Italian



searchers to choose these sectors, despite as revealed by the analysis on AIDA these businesses are not the richest of potential deals.

Having said that, doesn't mean that a searcher has to avoid looking into them, instead probably due to their cost and asset structure they are performing better in terms of CAPEX and EBITDA. This have ben the case for Tre Cime Capital, currently negotiating with a Software house company specialized in Agritech solution the term and condition of the acquisition. The company is located in Lombardia, operating in the IT/Tech business, with an EBITDA margin of 40%, and a very low CAPEX requirement. The bid price offered by Tommaso Romanelli is around 5 times the EBITDA, in line with the multiples of a wealthy and profitable small medium company.

3.5) Main Considerations

Throughout the interviews many considerations about the search fund model in the Italian market have been touched and discussed, others are a result of what can be infer gauging all the information together.

As the theory says, there are three main pillars on the search fund model: the principal, the investors, and the targets. As concern the first one, the searchers, it's interesting to understand how Italian talents can participate to the development of the asset class in Italy. Many times, the newspapers condemn the fact that too many students, and not only, went and go abroad to pursue better career opportunities, doesn't matter whether they are, in a sector rather than in one other, doing research or become an entrepreneur. The so-called *brain-drain*. The entrepreneurship through acquisition seems to be a great opportunity to attract back those talents who went away in the past, offering them a role of CEO in a company with a competitive salary. Usually searchers are MBA graduates and it's tough to estimates how many Italian talents are attending an MBA nowadays, but there are for sure a big enough group of them that might be excited by the model and decides to come back. At the end of they day, all the current searchers worked and studied abroad, MBA included, and they decided to come back because they have been always attached to the country and they want to spend the next 10 or more years in Italy. In a future outlook then, find a talented Italian MBA graduate who come back to raise a search fund searcher might not be an issue in terms of numbers.

However, if the model wants to develop even more and get visibility on the Italian community, institutions like university, business schools and regulatory members have to play a fundamental role. The first two in teaching and giving spaces to discuss the model in class, conferences, lectures, and modules. IESE is a great example of a business school embracing the model and spreading around the awareness of the asset class, leading the Spanish market of search fund to be one of the biggest in the world in a few years. The second, to create a legal environment in which the model can fit at his best, without incurring in a British lawyer to incorporate the fund. All the searchers interviewed shows the willingness to support the awareness of the model through every single professional channel available to make people aware of this new asset class. From the newspaper, passing through classes at the universities, and contacts with business schools' research departments. According to them, the institutions play the most important role to diffuse the knowledge of the model to the students, first, but also to their network, potential investors included.

Targets

The second pillar, the targets, is another crucial point and the most important driver for the success of a search fund. As seen in the first chapter, investors consider the right target as the necessary condition to a young CEO to succeed. Of course, a comparison with the American searcher is meaningless: the country is huge, and even though they are so many States they share the same business and investment culture, language, and legislation. These factors allow searchers in US to move and to have a greater number of potential target. European and Italian searchers interviewed admitted that is slightly harder to find a target in their home country on paper, but indeed thanks to the fact that there is less competition and the public database help a lot during the search phase, is not that much harder. The data shows how the international searchers spend less time to look for and acquire a company. The same concepts can be applied in the Italian environment: clearly the search phase is a number game and all the searchers agreed on the fact that the more companies a principal screened, the more chances to find the right one he/she gets. Since the model is just born in Italy few searchers are currently operating, further, in different areas or main industry, the competition among them is weak. Searchers in UK, especially in the London area, are reviewing the same deals cause the economy is smaller and, accordingly the number of potential target is limited. In the Italian market then, seems to be a lot of space where to play: roughly 15 thousand companies meets the minimal requirements of a search fund out of almost 120.000 small and medium companies operating (more than 200.000 according to Osservatorio AUB in 2014). Yet, among those companies the mean age of the CEO currently running the firms is high, standing at

55 with 4 out of 10 CEOs over 60. This means that in the upcoming years a lot of profitable, growing companies will need a succession plan to put in place, or at least the owner is likely to retire. A searcher in UK looking for targets also in north Italy didn't agree with this view. He pointed out that in Italy there are a lot on companies in trouble, or highly leveraged, making them unattractive to the traditional search fund model where the company has to have stable and consistent cash flows. In his opinion, the search fund model will not develop as much as hoped by the other searchers due mainly to the lack of targets that will meet the strict requirements of the traditional model. A more flexible model, with a more experienced principal, seeking also situation of distressed or high debt, would be a better solution and a more successful venture. In fact, he is operating a hybrid model with the structure of a search fund but with less investors, a principal with +20 years of experience, looking for targets in 3 different countries with more flexible criteria, included distressed firm.

Investors

The search fund, as an asset class touched a white space in the alternative investment ecosystem. In fact, before it came, any asset class was targeting small and medium companies to expand them, except strategic buyers already in the market. Regarding the Italian market, despite the private equity investments that are not big as they are in other countries, it has been proved that the competition is weak also on this side. Also, the value proposition is different among private equity and search funds, and this makes a lot of difference when an owner needs to decide to who sell the business. Moreover, private equity funds are investing in search funds, as a matter of a fact.

Then, using the search fund vehicle, investors are able to target viable small and mid-size companies without looking into it but financing a small amount to let a talented individual to do it on their behalf. Yet, is proven that the returns, abroad still, are well above the average of other investments remunerating the risk taken. Listening to the experience of the fundraising process of the Italian searchers, seems that there is still a fear to invest in this new asset class. Looks like the investors who really invested so far have been the bravest among the others. There is then a generalist risk aversion that is slowing down the opportunity to let the model taking-off. It's also true that there is still a weak information and the model is not well known around the community. Or maybe the model is known, and also the financials have been understood, but investors are afraid to lose their capital and even though they are curios about, they prefer to let others invest first and maybe they will step in later. As a matter of a fact, many investors weren't afraid to commit the acquisition capital once a target would have been found, but indeed they were questioning the meaning and the utility of the search capital. Is not then an issue of lack of capital since, as seen, there are a lot of wealthy families probably looking for alternative investment where put their money. Probably a wider and better information of the search phase process, the needs of the search capital, the active role of the investors, and for sure the first successful acquisitions, will help the investors community to believe more on the model, easing the fundraising phase and sustaining the asset class development in the future.

3.6) Benefits for the Italian Economy

Is reasonable to wonder how the search fund model can affect the Italian economy. Analyzing the returns an economy as Italy con have from the success of an investment as a search fund can brought there are two main benefits: continuity to the target companies with more young people involved, and a brain-drain reverse exploiting their international network to export more.

Search fund targets are mostly companies with difficulties in their succession plan. This is an issue on whether or not the next generation would be able to bring the reins of the company and lead it to the next level, or even stabilizing it. If there is a next generation. The Osservatorio AUB stated that from the third-generation families businesses, the 80% of the Italian firms, get in trouble with less performances and even negative results. Yet, the same report reveals how those firms are already led by the third generation in the 11% of the cases, while half (48.8%) of the companies are actually led by the second generation. This means that, linked with the mean age of the Italian CEOs (55) the upcoming years will be crucial for the owners in choosing how and to whom leave the company. In some discussion with owners and searchers to which the owner's child participated, principals said that the latter sometimes have been the first to admit that they were not able to, or experienced enough, to be the next leaders of the family's firm. This scenario assumed there is a succession plan in place but sometime a concrete plan is completely missing. Search fund stands then to step into these cases and solve a problem for many owners. But replacing a retiring owner means also give continuity to a business that otherwise will be shut down in the worst case, a business made out of people and their families, with a network of customers and suppliers and an ecosystem built it up throughout the years. Furthermore, replacing an owner with a young CEO is a mean to get the younger generations involved in business and fight the aging of the leadership in the Italian ecosystem. As seen many times throughout the chapter the average age of the owners and CEOs are quite high and is becoming even higher. Search fund is definitely an effective solution to let on one side to leave the day to day operations for an old owner, and an engaged a talented young individual to lead a company, rejuvenating the leadership and binging fresh energy to the business.

In addition to that, being the searchers coming from experiences abroad both for educational and job purpose they can add a lot of value to the economy. Mainly for two reasons, the first one is the best practices learnt in the top business schools and the other one came from the direct experiences they had at the workplaces they stayed. The model, if properly applied and promoted, can boost the return of the brain-drain that is actually happening especially in last years. The model gives them enough motivations to come back starting from a role otherwise unlikely to cover, even abroad, at that age while earning a reasonable amount of money, in their home country. One of the reason why the actual searchers are come back and seeking for a company in Italy is that the model allows them to do what they wanted to do in the place where they love to be. But what's important is the fact that when they came back they brought with them a huge amount of knowledge and networks. Knowledge that will be used to improve the companies they will lead applying techniques, ways of working, methods and people management they absorbed, helping the firms to growth up and develop. Yet, the networks created throughout the experiences allow the searchers to exploit them in order to reach new market and expand the action area where the company played so far. Again, in the Osservatorio AUB's report is stated as the Italian companies export in the 65% of the cases. Although the trend is seeing export growing year by year, there is still a big group of companies not selling outside the borders (30%) and another 35% is selling less than 50 of their revenues abroad. And the correlation is that the bigger the company the more they export. Since the smaller companies are the targets of the search funds, this leave a lot of rooms to play for a new energized and well-connected individual looking for expand and increase the business. Indeed, entering in new markets increasing organically the revenues is one of the action every searcher looks for enhance the business.

Conclusions

Throughout the paper has been touched all the most relevant considerations concerning the search fund model. In the first chapter it has been described in detail who are involved - the searcher, the target, the investors - and how the model works explaining each phase with their own characteristic – fundraising, seeking a target, acquire the company, operations to create value, exit the deal and cash-in. In a market as the Italian one, where the model is almost unknown to the majority of the community is important to clarify the role of each player and the reasons behind it. At a first glance a young inexperienced MBA graduate might not be consider the best candidate to run a business although it's a small or medium one. The same logic is applied for the investors since they need to commit a small amount as search capital while they could invest directly in a deal if the latter would be found in advance. Yet, if target has to be a profitable and growing business, is reasonable to wonder why an owner should sell it. An inexperienced individual is most likely to be motivated enough to give up a more certain career after the MBA to raise capital and look for a company to buy. Yet being inexperienced, is willing to listen and embrace the advices of the investors in order to learn for more experienced people and increasing the odds to be successful. Investors who commit to the search capital get in exchange an option, a right but not an obligation, to invest in the acquisition capital when a target has been found, otherwise lost. Further, the opportunity cost to invest in a search fund is quite low, allowing most of the asset class's investors to invest in more than one fund. Once invested, the capital providers have the great opportunity to follow their investments and influencing the way they are managed, possibility available in few other asset classes but unavailable in search fund's similar one. The owners, instead, might have the need to sell the firm for non-business motivations such as a need in liquidity, private reasons, the wish to step back from the day to day operations, lack in the succession plan. The latter is most of the time the case, since owners have not a next generation to bequeath the company, or simply the next generation is not prepared enough to grab the reins or have chosen a different career.

Then, each phase is at his way tough and necessary condition to the next one starting from collecting enough search capital from the best group of investors, doesn't matter how many; to find the right target that fits the criteria and the searcher; negotiate the best deal with the seller, banks and other stakeholders; operate in the interest of the medium-long term growth of the company; till the finest exist to return the owner, banks, investors, and the searcher itself. According to the literature, the interviews performed, and the personal research is hard to identify the most important factor of success. For sure, is a mix of variables internal, external, manageable and not that, playing all together, determine a range of outcomes with a lot of shades. However, is a common thought to consider the right target the relevant driver for a successful search fund, among all the others. In fact, a company fulfilling all the criteria – recurrent revenues, no customer concentration, high EBITDA margin, growing in a growing industry, … – help the searcher and the investors to have the time needed to understand the business and the future trends, planning in advance the strategies to pursue without influence the on-going operations.

As seen, the US is the biggest and most developed market thanks to his long story of search funds and a great ecosystem that allows the model to be spread and diffuse. Nowadays, are more than 30 years that the model is operating in US, with a total new traditional search funds raised of 258 and more than 550 considering all kinds of search funds. Of course, in 30 years the model has seen a lot of exits and could be consider a known asset class for the American economy, gaining the credibility and the authority to be consider by the students as a remarkable career path and by the investors as a great opportunity to step into. Yet, investments funds that deal only with search funds are a proof of the evolution of the model and the trust showed by the investors community. The drivers of this expansion can be assigned to the important role of the institution like Stanford and Harvard, pioneers on teaching and pushing the model towards the students as well as the effort to publish periodically studies, papers, books on the topic educating the ecosystem. Then another driver has been the model itself demonstrating his potential through the successful exits and higher returns attracting the attention of the investors, students, business schools, and media that helped to spread even more his knowledge. Lastly, the American ecosystem of businesses, investment culture, risk appetite, language and legal system allow the searchers and investors to use the model overall the US, augmenting significantly the market width and operational range

Outside the US borders the model arrived almost ten years later, firstly in UK and after some years in Mexico as well. Despite the great results achieved in US the model expansion has been modest and slower in the international panorama. So far, the new traditional search funds are 45 and overall are almost a hundred, where among those 50% are based in Europe, mainly UK and Spain. Being the US and the other countries very different from each other under several aspects is not possible to expect a similar development of the model. One of the main reasons why the model had not an immediate expansion abroad is the fact that, being new is the completely new asset class, the first searchers struggled a lot to educate the local investors about the viability of the model first and the feasibility of their own investment project. Considering the fact that Europeans are on average more risk adverse, it has been not easy to raise the first commitments and therefore initiate the diffusion of the model around Europe. Then, looking still at the European market, it's made of several countries with different language, legal systems and risk appetites, plus a different business environment. This ecosystem doesn't allow searchers to find a huge number of investors first, and a vast number of potential targets, based in different countries, as instead happened in the US.

Further, the differences in between the American and European markets of search fund is not only structural, due to the historical business cultures, legal systems or firm's compositions, but also operational. In fact, in each of the phases described thee are some peculiarities owned by every single ecosystem. Thanks to the interviews conducted with some of the European searcher operating in Spain, UK, Portugal, Italy, Czech Republic, and also a Moroccan searcher it has been possible to have a clearer view of the insight differences between the two continents. In the fundraising phase for example European searcher are mixing US investors and local investors: the first useful because they know already the model and how it works, the second to help the searcher having a better understanding of the home market where they are operating. In the searching phase instead, European searcher are facilitated by the availability of the information regarding the companies in each member state. In fact, the balance sheets even of the small and medium companies are publicly available through specific databases or the chambers of commerce. This allows the searchers to save time and money, screening at the beginning of the process those targets that are effectively meeting the criteria. In US this is not possible, and searchers need to reach out a massive number of companies and owners, trying to get the information needed to include or exclude a firm from their pipelines. The data shows in fact that the European searcher spent more time in fundraise and less time in find a target to buy. Yet, the letter of intent, massively used by the American searchers have not the same value in Europe, where they are taken as a serious engagement from both sides to conclude the acquisition/sale. In terms of the next phases, due to a small amount of operations concluded so far is not possible to draw a trend or a standard to compare with the American one. In general, European searcher cannot enjoy the SBA loans provided by the American banks, however they are relying as well on the use of leverage to buy a business. Once the target has been acquired. In Europe seems there is a trend to use less seller note in order to keep the former owner in a transition period and help the collection of the acquisition capital needed as well, preferring for example giving equity shares. During the operation phase it's hard to display the differences since each business is a unique entity and has to be managed accordingly. However, searchers are using both organic and inorganic strategies to growth the businesses; the Europeans ones are relying more on the export side, bringing a regional or country champion to an international level. As regard the exits, few of them occurred internationally and a comparison is worthless. Nevertheless, European searcher are trusting and exploiting the investors' pool to find the best way to exit the deal while in the US are more common the traditional path such as sell to a private equity firm, strategic competitor o even going public. Having said that, international searchers are following the footprints of the American search funds in terms of returns, having an aggregate IRR of 33.4% while the American one stands at 36%.

The search fund model then arrived in Italy as well later in 2016 thanks to some Italian MBA graduates coming back from their experiences abroad. Apparently, it has gained immediately popularity since in a couple of years the country has 6 search fund and one is going to fundraise soon even though it will be the only one in 2018. After a careful and thorough research and analyses is reasonable to believe that the search fund model is feasible in an Italian ecosystem, and therefore, applied in the Italian market with rooms to diffuse it and developments. This research has been conducted using primary the information available from the most authoritative sources from the search fund literature, then throughout the interviews performed and on-line databases. However, the model has to be re-adapted in an Italian context and cannot be applied as it is in the US. The motivation and the adjustments can be summarized as below:

- There is a market for small and medium size companies that meet the search fund's criteria. Appears that there are almost 15.000 companies according to AIDA and it has shown how the majority of them are in the three most populated regions located mostly in the north of Italy, mainly smaller than € 30 million, with 20% of them realizing an operating margin above 25%. 10% of them generate net profit greater than 10% of their sales, however in the 60% of the cases they generate profit below 10%. Interest thing is the fact that 6 out of 10 firms has less than 30% of debt in their balance sheets and 46% have a negative net financial position. Those measures mean that Italian companies in the majority of the cases are using internal resources to finance their investment, and if they borrow debt, are able to reimburse it through the cash flows. Only in 15% of the sample, companies have displayed difficulties in repay the debt, such as a NFP over EBITDA over 5 times.
- although the market is less liquid than the US one in terms of deals closed per year.
- Target owners are on average 55 years old and most of them are older than 60, therefore next to the retirement in few years, and therefore this fact creates the conditions for a searcher to step into those companies missing a succession plan. Yet, is proven that owners are more willing to sell to a searcher rather than another financial or strategic buyer.

- The investment market in Italy for this asset class exist and is full of wealthy individuals than can support the project, with more than 300.000 millionaire families. However, Italian investors don't feel comfortable to commit their money with someone with no or little experience. In fact, the mean age at incorporation of the Italian searcher is higher (36) than in the US, where investors are more risk seeker.
- Most of the Italian searchers overcame this problem finding investors throughout their personal acquaintances, especially leveraging the Alumni associations of their MBA's Business Schools. Usually this not happen in the US where the investors meet the searcher at their MBAs classes/conferences and are able to catch them before they start a search fund.
- Sometimes investors are asking to commit half of the first search capital ticket, sometimes not understanding the need of this capital, enlarging the investors' pool. Further they are less likely to give up-front equity to the searcher unless he/she will co-invest. It's easier for principal to negotiate the vesting of equity over time and based on performances.
- The private equity and venture capital market is smaller and thinner compare to the American one. For that reason, seems to be a competition in looking for the same targets among the two asset classes. Indeed, even though private equity firms target barely firms in between 2 and 25 million revenues range, there are many other factors to sustain that there is no competition. First of all, the value proposition of the two are different, PE looks for minority stakes with the aim to retain the owner/current CEO, longer holding period, different returns for investors, tendency to use more leverage.
- Leverage can be used since banks are willing to lend money to performing small and medium companies after the financial crisis. However, searcher cannot believe this will be the driver of the investment case. Operational improvement with an organic growth and enhancing the governance/structure of the company is the first goal.
- Revenue growth in the international market seems to be the most shared way for value creation leveraging the network of the searchers and the investors' pool as well.

Furthermore, there are other factors that the Italian economy can experienced thanks to the search funds:

- A continuity of those businesses facing a missing succession plan, otherwise lost, with the involvement of young talented individuals grabbing the reins of performing companies.

- A drain-brain reverse, since the model attract Italians living for studies or working purpose abroad, offering an appealing career with a competitive salary in their home country
- An overall improvement of the firm/s and his ecosystem thanks to those searchers coming back and applying the best practices learnt during their MBAs or in their career.
- An international breath due to the international network of the searcher that can be leveraged to boost the export.
- A rejuvenation of the leadership class in the Italian economy panorama, with younger talents that speak at least a couple of languages, certainty English.

Having said that, there is a couple of necessary conditions in order to see the model gaining traction. First of all, the role of institution such as business schools have to promote the model and spread awareness of this new asset class. Both, for investors, students and even owners. Second, the investors community has to support the upcoming searchers, believing in them and commit a small amount such the search capital. Then is reasonable that when the first successful acquisitions and exits will occur, the search fund model will have the authority the deserve also in the Italian market.

References

Julia, C., Lomba, B., Moreno Sosa, J., and Ojeda J., "Feasibility of the Search Fund Model in Spain", Harvard Business School - Field Study, 2010.

Ruback, Richard S., and Royce Yudkoff. "Buying Your Way into Entrepreneurship." Harvard Business Review, 2017.

Julia, Carlos, Borja Lomba, Jesus Moreno Sosa and Josè Ojeda. "Feasibility of the search fund model in Spain." Harvard Business Review, 2010.

Ruback, Richard S., and Royce Yudkoff. "The Market for Smaller Firms." Harvard Paper, 2012.

Kessler, Benjamin, and Jim Ellis. "Search Funds: Death and AfterLife.", Stanford Graduate School of Business, 2012.

Kolarova, Lenka, Peter Kelly, Antonio Davila, and Robert Johnson. "International Search Funds – 2016 selected observations." IESE Business School – University of Navarra No. ST-415-E, 2016.

Kolarova, Lenka, Peter Kelly, Antonio Davila, and Robert Johnson. "International Search Funds – 2013 selected observations." IESE Business School – University of Navarra No. ST-342-E, 2014.

Kolarova, Lenka, Peter Kelly, Antonio Davila, and Robert Johnson. "International Search Funds – 2011 selected observations." IESE Business School – University of Navarra No. ST-342-E, 2012.

Luther, Janson and Sarah Rosenthal. "Search Funds – 2013 selected observations." Stanford Graduate School of Business No. E-, 2016.

Luther, Janson and Sarah Rosenthal. "Search Funds – 2013 selected observations." Stanford Graduate School of Business No. E-521, 2013.

Luther, Janson and Sarah Rosenthal. "Search Funds – 2013 selected observations." Stanford Graduate School of Business No. E-521, 2011.

Stern, Louis. "Search Funds: Best Practice for the Search Phase." Stanford Graduate School of Business, 2014.

Jonson, Rob., "Search Funds – What's make them work?", IESE Business School – University of Navarra 2014.

Simon, Jan., "Search Funds, the Asset Class Nobody keeps Up With … so far", IESE Business School – University of Navarra 2016.

Entrepreneur Club, "Search Fund Panel – 1999". Stanford Graduate School of Business and Center of Economic Studies, 1999.

Morrissette, Stephen, G., and Shamus Hines. "An Investors' Guide to Search Funds." The Journal of Private Equity, 2015.

Dennis, Josh., Erik, Laseca., "The Evolution of Entrepreneurship Through Acquisition", University of Chicago Booth School of Business, 2016.

Matlack, Tom., "How to Raise a Search Fund Amidst the Boom" Tom Matlack Blog, 2016.

Gagliardi, Guidalberto. “Pledge fund, search fund e SPAC: novità nel private equity” AIFI – Amministrazione e Finanza N. 5/2016, 2016.

Mount, Ian. “Search Funds: An exit strategy for aging European business owners”. Fortune, 2015, downloaded the 10th May 2018.

Simon, Jan. “Search Funds, the Asset Class Nobody Keeps up With…so far”. IESE blog, 2016, downloaded the 30th April 2018.

Matlack, Tom. “How to raise a search fund amidst the boom”, Tom Matlack Blog on LinkedIn, 2016, downloaded the 11th August 2017.

Mu Y, Li. “Search Funds – 2003 what has changed since 2001?” Stanford Graduate School of Business No. E-162, 2003.

Stanley, Aaron. “Some prefer buying a business to building it from scratch.” Financial Times, 2016, downloaded the 12th November 2017.

Moules, Jonathan, “Entrepreneurs use business school tool to buy companies globally” Financial Times, 2015, downloaded the 10th May 2018.

Knowledge@Wharton, “Looking for a company to run? Search Funds could be the answer.” Knowledge Wharton, 2007, downloaded the 10th October 2017.

Ruback, Richard S., and Royce Yudkoff. “Why more MBAs should buy a small business”, Harvard Business Review, 2016.

Nieboer, Ian and Carenzo, Mathieu. “The first 10 question for would-be-searchers.” IESE Business School EN -15 - E, 2011.

Rozenrot, Elnor. “Note on search funds.” Tuck School of Business – Center for private equity and entrepreneurship., 2005.

Ruback, Richard S., and Royce Yudkoff. “Buying your way into entrepreneurship”, Harvard Business Review, 2017.

Stanford Business Shool, “A primer on Search Funds – A practical guide to entrepreneurs embarking on a search fund”. Stanford Graduate School of Business and Center of Economic Studies, 2013.

Hunt, Richard A., and Fund Bret., “Reassessing the practical and theoretical influence of entrepreneurship through acquisition.”, The Journal of Entrepreneurial Finance, 2012.

Matlack, Tom. “Ten ideas for increase the number of female search fund CEOs”, Tom Matlack Blog on LinkedIn, 2017, downloaded the 25th May 2018.

Redazione EconomyUp, “Le aziende familiari italiane sconfiggono la crisi, ma servono più giovani”, EconomyUp, 2015.

Cerved, “Industry Forecast 2017-2019”, Cerved Study, 2018.

Corbetta, Guido., Quarato, Fabio., Minichilli, Alessandro., “L’Osservatorio AUB sulle aziende familiari italiane – 9 Edizione.”, Osservatorio AUB, 2017

BCG., “Global Wealth 2017 – Transforming the Client Experience.”, BCG research, 2018.

AIFI, “2017 Il Mercato Italiano del Private Equity, Venture Capital e Private Debt.”, AIFI research, 2018.

Web References

www.gsb.stanford.edu/faculty-research/centers-initiatives/ces/research/search-funds

www.iese.edu/en/faculty-research/research-centers/eic/search-funds

www.equityfactory.ch/file/pubblicazioni/Search_fund_etc_-_AeF.pdf

www.larena.it/home/economia/economia-veronese/un-fondo-tascabile-in-cerca-di-pmi-a-verona-1.5771646?refresh_ce

www.forbes.com/sites/vanessaloder/2014/08/07/the-search-fund-model-how-to-become-a-twenty-six-year-old-ceo-if-youre-willing-to-kiss-frogs/#4b4404591190

www.entrepreneur.com/article/219466

www.forbes.com/sites/georgeanders/2013/10/09/stanfords-b-school-sensation-plot-a-takeover-in-two-weeks-2/#637d025d772b

www.corriere.it/economia/cards/sconosciute-aziende-italiane-classifica-financial-times/moderna-non-troppo-edilizia.shtml

www.ilsole24ore.com/art/finanza-e-mercati/2016-10-25/le-prime-venti-industrie-italiane-fca-sempre-prima-182950.shtml?uuid=ADcUHEjB

www.searchfunder.com/#tour5

www.axial.net/forum/hunting-deal-7-stages-search-fund-model/

www.vonzeocapital.com/

www.searchfundaccelerator.com/

www.axial.net/forum/hunting-deal-7-stages-search-fund-model/

www.scven.com/home.html

www.businessinsider.com/5-strategies-for-successfully-managing-a-search-fund-2012-1?international=true&r=US&IR=T

www.business.financialpost.com/news/fp-street/search-fund-business-slowly-making-way-to-canada

www.npr.org/sections/money/2014/05/05/308352614/seeking-a-fortune-through-search-funds

www.ft.com/content/fc9fcfa8-bf5a-11e3-a4af-00144feabdc0

www.theoperandgroup.com/

wscandcompany.com/search-fund-model/

www.searchfundalliance.org/

www.jimsteinsharpe.com/

www.searchfund.org/

searchfunds.net/

www.cerved.com/en

www.aidaf.it/attivita/studi-e-ricerche/

www.aida.bvdinfo.com/